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and Foreign Commerce. Subcommittee on Transportation and Commerce.

FREIGHT CAR SHORTAGE AND UTILIZATION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE

OF THE

COMMITTEE ON

INTERSTATE AND FOREIGN COMMERCE

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

**NATIONAL FREIGHT CAR SHORTAGE AND UTILIZATION
OF FREIGHT CARS**

JULY 25 AND 26, 1978

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 Martin, George B., Jr., vice president.
 American Iron & Steel Institute, Thomas T. Church.
 Association of American Railroads:
 Briggs, Richard, vice president, finance and public relations.
 Dempsey, William H., president and chief executive officer.
 Harris, William J., Jr., Ph. D., vice president, research and test department.
 Martin, James E., vice president, operations and maintenance.
 Wooden, Donald, director, freight car utilization cooperative research program.
 Baltimore City, David A. Wagner, transportation coordinator, mayor's office.
 Boston & Maine Corp.:
 Dustin, Alan G., president.
 Rennicke, William F., assistant to the president.
 Computer Identities Corp., David J. Collins, president.
 Consolidated Railroad Corporation:
 Bossler, L. J., general superintendent, freight car utilization.
 Folk, Joseph, Ph. D., director, strategic planning.
 Hagen, James A., senior vice president, marketing and sales.
 Sweeney, John L., vice president, government affairs.
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 Fertilizer Institute, Edwin M. Wheeler, president.
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 Koehn, Knut E., product manager.
 Mayer, Bernard, executive vice president.
 Southern Hardwood Traffic Association, Paul G. McQuiston, executive vice president.
 Trailer Train Co., Curtis D. Buford, president.
 Transportation Department, Federal Railroad Administration:
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 Gallamore, Bob, Deputy Administrator.
 James, Ray, Chief Counsel.
 Sullivan, John M., Administrator.
 Western Coal Transportation Association, Robert L. Kessler, executive director and general counsel.

FREIGHT CAR SHORTAGE AND UTILIZATION

TUESDAY, JULY 25, 1978

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE,
Washington, D.C.

The subcommittee met at 2:30 p.m., pursuant to notice, in room 2123, Rayburn House Office Building, Hon. Fred B. Rooney, chairman, presiding.

Mr. ROONEY. The Subcommittee on Transportation will come to order. The committee regrets very much that the five votes did not permit us to start this hearing on time, but I hope the witnesses that will be hard-pressed for time to make their commitments on their flights will adhere to the 10-minute summaries.

These hearings on the national car shortage and freight car utilization were scheduled for two reasons. The first is to conduct an oversight of existing Government policy and regulations. The second is to determine if changes in the law are necessary to improve or to correct governmental functions which affect the efficient use of freight cars.

A number of hearings by congressional committees already have been held on the freight car shortage problem. From them, I think, three things are clear: We have insufficient numbers of certain types of freight cars; there is a general dearth of locomotives; and an unusual set of conditions in the grain market produced an excess demand for rail freight service in a short period.

I think the railroad industry is responding appropriately to the first two findings—car and locomotive orders are at a 4-year high. The grain market question is outside the purview of this committee, but I have every confidence that my colleagues on the Agriculture Committee will find a constructive solution for it.

During these hearings we will focus our attention on the question of how efficiently the freight cars in service are being used. Decisions at the Federal level influence car utilization in direct and indirect ways through regulations on per diem, through car service orders and, in general, by interpretations of the power to regulate interstate commerce. A current example of the latter point is the question of the role of the Interstate Commerce Commission in the dispute over a nationwide automatic car identification system.

Railroads, to a greater degree than most businesses, realize the need to extract the most advantage from investments already made—both as a means of increasing their meager return on investment, and as a way of reducing outlays for new freight cars which currently cost between \$30,000 and \$40,000 each.

Shippers, of course, see the dividends in improved freight service and, in the long run, lower rates. In the past few months, though, the car shortage has gone beyond considerations of service and rates. It has resulted in some real damage to businesses—both large and small—around the country. These are customers railroads need to keep, and many represent markets that must expand. Whatever we say and do about rail transportation, we must always begin and end with the consumer for which the railroad exists.

I do not believe that any of the witnesses from whom we will be hearing, representing the Government, the rail carriers or the rail shippers, believe that freight cars are being used as efficiently as they can. Each has much to gain through more effective use of these cars. It is hoped that from the recommendations of these witnesses, needed improvements can be made in freight car utilization which will result in improved service to shippers and a greater return to the railroads.

Our first witness today is our distinguished colleague, a member of this committee, Mr. Tim Lee Carter.

STATEMENT OF HON. TIM LEE CARTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. CARTER. Thank you, Mr. Chairman. I will include my complete statement for the record and summarize it.

Mr. ROONEY. Without objection, your statement will be made part of the record.

Mr. CARTER. I greatly appreciate the opportunity to appear before this subcommittee.

I want to congratulate you, Mr. Chairman, for taking the leadership in holding these hearings on the shortage and use of hopper cars. This is a matter of extreme importance to this country—but especially to the part of Kentucky I represent. These are timely hearings and I know that your delving into our problems will help lead to a solution.

Your insight and expertise on transportation matters as chairman of this critical subcommittee has earned you wide respect among those of us here in the House as well as among our colleagues in the Senate.

It is a pleasure and an honor to testify before your subcommittee. I also want to note my good friend, Mr. Skubitz, whose able contributions to our committee on transportation matters has been invaluable through the years.

Mr. Chairman, in 1887 Congress created the Interstate Commerce Commission. The first case the ICC considered involved car shortages. Today, almost 100 years later, this problem is still with us. But there is a special urgency to the shortage facing my State of Kentucky.

Last week, under considerable lobbying pressure, I voted against the coal slurry pipeline because I believed it would hurt the chances of a strong rail system and lessen the competitiveness of our eastern coal.

When we considered the 4-R Act in 1975, and when it was signed into law in 1976—I hoped it would alleviate the very problem we are discussing here today. I regret to state that instead of improv-

ing car service, my part of Kentucky has experienced a decline in service over the past years.

During the month of May the single railroad serving the coal fields in my area filled 19 percent of the single car orders. In contrast, one of the unit train shippers there got 60 percent of the trains it requested that month.

With single car shippers unable to get but about one-fifth of the cars they need, you can appreciate, Mr. Chairman, the problems this represents. One operator in my district has told me he now has 80,000 tons of coal on the ground waiting for railcars. Mr. Chairman, with that coal selling for \$25 a ton, 80,000 tons of coal sitting on the ground represents \$2 million. Few operators, especially our small operators, can afford to have that kind of money tied up.

Some operators have been forced out of business because of these problems, and I fear many more may go under if this situation continues.

I am pleased that three representatives of coal operators in eastern Kentucky will be testifying about this problem. Mr. Cloyd McDowell from Harlan County is from my district. I know that this subcommittee will benefit from his testimony and that of other gentlemen who will appear. They can provide valuable insight into the problems facing Kentucky shippers.

When confronted with problems, I have always strived, as you have, Mr. Chairman, to offer solutions rather than castigation. We have severe problems with our rail situation in eastern Kentucky. I submit there are several possible solutions. I have laid out these possibilities in my prepared statement, but they include a possible demonstration project which the Federal Government might sponsor in Kentucky—involving the State, the railroad, and the shippers. I have asked the staff of your subcommittee, Mr. Chairman, to explore this possibility. I am hopeful that there may be an innovative way for the Federal Government to promote a cooperative effort.

Another solution is to explore the expansion of the concept behind Railbox, which effectively solved the problems we had with boxcar shortages. This, of course, will take the cooperation of our friends on the Ways and Means Committee now marking up legislation to give railroads producing railcars a 70-percent tax credit, but leaving Railbox at 50 percent.

Another solution is to encourage greater use of the mechanisms already available under the 4-R Act, to increase the railroads' capabilities for car control.

Another solution is to find ways to help our railroads improve their tracks and their railbeds.

Mr. Chairman, these problems of hopper car shortages and car utilization are widespread. But I submit that those in eastern Kentucky have impact far beyond the borders of our State.

The commodity to be moved in eastern Kentucky is coal, and we must encourage the increased production and use of that commodity. We cannot allow the lack of transportation to cripple our efforts to insure our energy future. Nor can we allow transportation problems to be the cause of bankruptcy, and consequent lost coal production, among small operators.

I know that this subcommittee recognizes the seriousness of the problems facing our State and will be carefully considering the best methods for solving those problems. For this I am grateful.

I thank you, Mr. Chairman, again for this opportunity to testify today, and I commend you and this subcommittee for your kind attention.

[Congressman Carter's prepared statement follows:]

STATEMENT OF HON. TIM LEE CARTER, A REPRESENTATIVE IN CONGRESS FROM THE
STATE OF KENTUCKY

Mr. Chairman, I greatly appreciate the opportunity to appear before this Subcommittee. I also want to congratulate you, Mr. Chairman, for taking the leadership in holding these hearings on the shortage and use of hopper cars. This is a matter of extreme importance to this country but especially to the part of Kentucky I represent. These are timely hearings, and I know that your delving into these problems will help lead to a solution. Your insight and expertise on transportation matters as Chairman of this critical Subcommittee has earned you wide respect among those of us here in the House as well as among our colleagues in the Senate. It is a pleasure and an honor to testify before your Subcommittee, Mr. Chairman.

I also want to note my good friend, Mr. Skubitz, the ranking minority member of this Subcommittee, whose able contributions to our Committee on transportation matters has been invaluable through the years.

Mr. Chairman, in 1887 the Congress created the Interstate Commerce Commission to ensure railroads provide reasonable, adequate and equitable service to all shippers. The first case the Commission considered involved car shortages. Today, almost 100 years later, this problem is still with us.

I am not a member of this Subcommittee, Mr. Chairman, but I have been a member of the Interstate and Foreign Commerce Committee since coming to Congress in 1965. And throughout my 13 years on this Committee, I have been deeply concerned about our nation's railroads as an integral part of our transportation system.

Just last week, under considerable lobbying pressure, I voted against the coal slurry pipeline proposal because I believed that it would hurt the chances of building and retaining a strong rail system.

When we considered the 4R Act in 1975, and when it was finally signed into law in February of 1976, I was hopeful that it would alleviate the very problem we are discussing here today.

During consideration of that act, I had considered an amendment which would have prohibited the railroads from instituting unit trains. My concern at that time was that I felt unit trains might give an unfair edge to large shippers over the smaller shippers unable to afford to purchase cars for unit trains. I was particularly concerned about the small coal operators in the part of Kentucky I represent whose increased production has fueled the coal boom we have seen in our state over the past few years. The coalfields in my part of Kentucky are served by a single railroad, and I was approached at that time by a representative of that railroad. That representative assured me, in fact promised me, that if I would not offer my amendment the railroad would ensure the smaller operators received the coal cars they needed. After checking with the representative of an association of such coal operators in my District, who said that this was acceptable to the operators, I did not offer that amendment.

Now, Mr. Chairman, I regret to report that the smaller operators in eastern Kentucky are unable to get the cars they need from that railroad.

During the month of May this year, only 19 per cent of single coal car requests out of the Harlan rail yard were filled. In contrast, one of the unit train shippers there during the same month got approximately 60 per cent of the trains requested, according to railroad executives who said they did not know the precise percentage.

Mr. Chairman, with single car shippers unable to get but only about 20 per cent of the cars they order, you can appreciate the severe difficulties this situation presents. Kentucky now leads the nation in production of coal. We are proud of the increased production which our operators, large and small, have achieved in order to make our country independent in energy supplies. We want to produce more coal. We can produce more coal. But it does us little good, nor this country any good, to get the coal out of the ground if we cannot get it to market.

In my state, between 80 and 85 per cent of the coal travels by rail. This is a percentage far above that of other eastern coal states. And when we cannot get that

coal out by train, the impact of increased costs and lost revenues ripples out through the entire economy of our state.

One operator in Harlan County, in my District, told me that he has 80,000 tons of coal on the ground waiting for coal cars. Now Mr. Chairman, with that coal selling for \$25 a ton, 80,000 tons of coal sitting on the ground represents \$2 million dollars. Few operators, but especially smaller operators, can afford to have that kind of money tied up. As a result, some operators have been forced out of business, and I fear many more will go under unless this situation is rectified.

I am pleased that three representatives of coal operators in Kentucky faced with these difficult problems will be testifying before this Subcommittee. Mr. Cloyd McDowell is from Harlan County, and I know that this Subcommittee will benefit from his testimony and that of the other two gentlemen who will appear. They know these problems intimately and can offer the Members of this panel valuable insight into the problems facing shippers.

Mr. Chairman, this hearing has been called to discuss two problems; one, that there are not enough rail cars, and two, that they are not being used efficiently.

Now there have been a lot of proposals through the years to deal with these problems. As for the first one, of there not being enough cars, it used to be, when I first came to Congress, that the greatest shortage occurred with respect to box cars. That problem has been taken care of, to a large extent, by the creation of Rail Box. I understand, Mr. Chairman, that Mr. Curtis Buford, the president of Trailer Train Company, is going to testify during this hearing.

As I understand it, Rail Box, which is part of Trailer Train, is a holding company owned by the railroads. The purpose of the holding company is to finance and build box cars. These box cars travel freely between railroads, with no per diem assessed. That concept, Mr. Chairman, is one that may have some promise for coal cars. I'll be anxious to hear the testimony of Mr. Buford to see if that approach holds out any hope for us in the coal fields. I would like to point out that our friends on the Ways and Means Committee must include Rail Box and similar arrangements in the special tax credits that are given to railroads for the production of rail cars. As I understand the situation, that Committee is now marking up a bill to give a 70 per cent tax credit to railroads that build rail cars but to leave Rail Box at 50 per cent.

Another possibility, Mr. Chairman, is for this Committee to focus on the particular problem I've pointed out. Namely, that the coal operators in eastern Kentucky don't have the means necessary to move coal out by train.

I think such a focus is justified in light of the energy crisis and the President's determination to use more coal. Last year, in his energy address to the Congress, President Carter called for expanded use of coal as a major element of a national energy policy. He called for an increase from the present production rate of 640 million tons per year to more than one billion tons per year by 1985. The coal mines in my state already are producing 148 million tons of coal per year; they say they can increase that production and they have every intention of achieving the goal of increased production.

Kentucky, therefore, may be an ideal place for us to demonstrate that the state government, railroads and shippers can work together to produce enough hopper cars to carry those increased amounts of coal, with the federal government helping to guarantee the project. I've asked the staff of your Subcommittee to explore the means of accomplishing and promoting such an innovative cooperative effort as a demonstration project. The aim would be to get more rail cars to get the coal from the mines to the markets. But an important aspect of such a plan must be to ensure that the smaller shipper has as great a chance as the bigger shipper in sharing in the increased transportation.

As you will recall, I recognize that there are two problems: that there are not enough cars and that those now available are not used efficiently.

As to this second point, I had representatives of a railroad in my office yesterday. This railroad said it has 32,000 hopper cars. Four thousand of those are used for hauling sand and gravel, so we really can't count those. Another 6,000 are committed to unit trains, so we really can't count those. But it's interesting to note that those 6,000 cars committed to unit trains turn around in about six days. In other words, those 6,000 cars, those 100 ton coal cars, are fully loaded with coal a little more than four times a month.

The remaining 22,000 cars are used to move coal from mines not devoted exclusively to shipment of coal by unit train. For those 22,000 cars, Mr. Chairman, we find they are only filled with coal about once a month. It takes anywhere from 17 to 21 days on the average for those 22,000 single cars to turn around.

What we need then, is to encourage railroads to keep better control over their cars. Some railroads have acquired sophisticated computer equipment and keep fairly good control over their cars. Other railroads do not.

When Brock Adams, our Secretary of Transportation, was a member of this Committee, he proposed in his Surface Transportation Act bill that the federal government get into the car control business. Perhaps we should consider that proposal again. At a minimum we should consider doing something to get the Department of Transportation to get railroads to apply for Title V money under 4R to modernize their car control capabilities. It is my understanding that very little of that Title V money has been given to the railroads. I understand that less than \$60 million of the \$600 million we authorized and appropriated for Redeemable Preference Shares is all that has been given out since the bill was signed into law on February 5, 1976. There also was a billion dollars for guaranteed loans in that bill, and even less of that has been used.

Another point, Mr. Chairman, is that the track is in pretty poor condition in many instances. Not a day goes by, it seems, that I do not hear of some derailment somewhere. In all fairness, we must say that not all of the railroads can afford to keep track up to carry these extremely heavy coal cars. It used to be that a 20 ton coal car was a big one. Today most coal cars can hold 80 to 100 tons. In the long run, however, we are going to have to devise some means to make sure the tracks are kept up to a safe level.

Mr. Chairman, these problems of car shortage and utilization are widespread. But I submit that those in eastern Kentucky have impact far beyond the borders of our state. The commodity to be moved is coal. And we must encourage the increased production and use of that commodity. We cannot allow lack of transportation to cripple our efforts to insure our energy future. Nor can we allow transportation problems to be the cause for bankruptcy and consequent lost coal production among smaller operators. I know that this Subcommittee recognizes the seriousness of the problems facing our state and will be carefully considering the best methods of solving those problems. For this I am grateful.

I wish to add a final point.

The L & N, the Louisville and Nashville Railroad Co., has a long and a proud history in the state of Kentucky. I have known and remembered it through the years as a strong and a good railroad. In 1971 the L & N merged with Seaboard Coast Line, Inc., and the fact of the matter is that many of the complaints about L & N's performance have cropped up since that time. In addition to the problems of service, it appears that this once strong and proud railroad last year reported a four per cent return on investment. And this in a time when there is more coal to be hauled than ever before. With the increased coal production, the L & N, quite frankly, should be making money hand over fist in Kentucky. Yet we have a situation where the railroad is unable to get the cars to pick up coal.

Perhaps these difficulties of the past few years are not a result of the L & N being taken over by Seaboard. But I do notice considerable investment by that corporation in hotels, publishing companies and so forth. We would hope that with so much coal to be hauled, and so much good to be done, that they would concentrate on hauling coal and not on unrelated investments.

I would hate to see the L & N go the way of the Penn Central. This once strong railroad needs help, and I wish to see the Congress provide that help where we can. The I.C.C. has been investigating charges against the L & N for its service to eastern Kentucky. At a meeting this past Friday morning Chairman O'Neal mentioned the possibility of civil forfeitures against L & N. But I personally deplore fines. I think they are unnecessary and that the money could be better used in buying new cars. Rather than demean, I would rather be helpful in finding ways to help the L & N to get more cars and improve tracks and its service. I would rather help return the L & N to the state of high regard which it once held.

I thank you, Mr. Chairman, again for this opportunity and commend you and the Subcommittee for your kind attention to this matter.

Mr. ROONEY. Thank you very much, Congressman Carter, for that very fine statement. We appreciate your appearance before the committee this afternoon, and understand the deep concern you have expressed with the car shortage in your own State of Kentucky, as well as the severe shortage throughout the United States. Thank you.

The Chair will now recognize the distinguished chairman of the Education and Labor Committee, a man who is very much concerned about the problems in Kentucky, Mr. Perkins.

**STATEMENT OF HON. CARL D. PERKINS, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF KENTUCKY**

Mr. PERKINS. Mr. Chairman, I am here to listen to the testimony. However, my district is one of the most affected districts in the United States, in my judgment. It is served by the L. & N. Railway Co. and by the C. & O. Both the C. & O. and L. & N. tracks are in very poor condition, and to a limited degree are serving the people.

The C. & O., of course, is in some better condition than the L. & N., but the L. & N.'s service to the people is just outright ridiculous—it is not serving the general public, not serving the coal people, only a very small percentage of them. I have watched both systems go down. The C. & O. has gone down over a period of years, especially after they merged with the B. & O.; and the L. & N., after they were taken over by the Seaboard people, they have continuously gone down. The maintenance of the track is very poor, and they are just not furnishing the cars. They say they are going to do it, but they never get around to doing it.

It is time, in my judgment. I would like to see the Government come to the aid of the railroads, but the railroads first must aid themselves; they are not doing that, the L. & N. The Seaboard has siphoned off much of the funds, put them into, expended them for other purposes. Perhaps we should draft legislation that would divest companies when they have merged—companies like the L. & N. be considered separate entities and put their money in improving their transportation system and rebuilding the tracks. Then provide Government assistance, if necessary.

But, presently, I do not see the direction in which the L. & N. is going—it is just going from bad to worse, apparently. The tracks have to be rebuilt. We have Mr. Jackson here from the district that I represent; he will describe it to you.

I think that we have been derelict in responsibility in not assuming and taking the lead in this area before this date. I want to congratulate you on conducting these hearings. It is as important to get the coal to the fire plants in the country and the industries of the country as it is to mine it, but we are just not delivering the coal, it is in the yards—hundreds of thousands of tons. Something must be done.

We have tried every way we knew how through the Interstate Commerce Commission to get some action—we have never gotten that action. It looks like it may fall on your shoulders.

Mr. ROONEY. Thank you, Mr. Perkins. The Chair recognizes the distinguished chairman of this committee, Mr. Staggers.

The CHAIRMAN. Mr. Chairman, I thank you for recognizing me. I just want to say a word to congratulate you and the committee for looking into the subject because it is something that has been around since I have been on this committee, I guess for 30 years, and has not gone away yet. Perhaps you can, by having these hearings, bring it to the attention of not only the railroads, the American people, but those in Government who can perhaps do something about it. Taking the time to go over these problems, I

think, is going to help the country. Certainly, we need something done in this area.

I congratulate Dr. Carter and Carl Perkins for coming, the chairman of his committee, for coming and giving us the benefits of their views. The situation in their State is a great deal the same as in my State of West Virginia, and I am sure it is the same in the coal areas of the country, and also the grain areas of the country, and other places where they need cars.

I have looked over your witness list, and you certainly have an impressive list of witnesses appearing here. So, I will stop now and listen to them a little bit. Thank you again.

Mr. ROONEY. Thank you, Mr. Chairman.

Without objection, the Chair wishes to place in the record, as though read, the statement of Congressman Michael T. Blouin of Iowa.

STATEMENT OF HON. MICHAEL T. BLOUIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. BLOUIN. I would like to take this opportunity to thank the chairman and members of the Subcommittee on Transportation and Commerce for allowing me to testify on a problem that is critical to the Midwest, the rail boxcar shortage. The Iowa Department of Transportation has calculated that there is a shortage of 2,000 cars in Iowa alone compared to a national figure of around 34,000 cars.

As you are aware, this shortage of freight cars is the worst in more than a decade. It has affected farmers, grain elevators, and businesses. Farmers and grain elevators have been unable to ship their grain while businesses have suffered employee layoffs and cutbacks in production.

There have been many reasons used in explaining the boxcar and hopper car shortage including the winter's harsh weather, the deterioration of rail trackage, the explosions that destroyed two major gulf terminals, and the rivers being closed to barge traffic longer than usual. I am sure that a combination of all of these factors lead to where we are today.

The boxcar shortage has been particularly hard on small grain elevators in Iowa. Many of the elevator operations had to borrow money to purchase their grain. Without rail service, the bins remain full and the shippers are faced with increasing interest payments. The elevator operators must then pass these increased costs on to the farmer by offering him a few less cents a bushel for his grain. If the elevator is full, the farmer is left without an outlet for his crops thus forcing him to borrow money or extend credit notes in order to meet his commitments. There is even some fear that some elevators will be unable to empty their storage bins in time for this fall's harvest.

The boxcar shortage has also had its impact on businesses in my district. At a conference that I recently sponsored on the "Future of Railroads in Iowa" individual businessmen and women discussed what impact the freight car shortage has had on their businesses. I would like to share with this subcommittee some of their comments.

Western Foam Co. of Oelwein was forced to lay off half of its workers during the winter months due to the freight car shortage problem. Many of those workers are still laid off today. This company is shipping half of what it could be shipping if it had an adequate number of boxcars. Other companies such as the Pillsbury Co. of Dubuque worked with only a skeleton crew during the winter months.

Other companies such as Quaker Oats of Cedar Rapids and Clinton Corn of Clinton survived the shortage by turning to trucks to haul their goods. Quaker Oats, alone, estimates that it has been short 1,500 cars in the past year.

As the subcommittee is aware, there is no one easy solution to the freight car shortage problem. Solutions that have been put forth include: the establishment of a group car leasing arrangement, a combination boxcar/hopper car; the establishment of a shipper rating system; and the establishment of a Government owned and operated pool of surplus boxcars.

I believe that any solution to the freight car problem must be worked out at the local as well as the national levels. I hope that the testimony presented before this subcommittee during its hearing will enable the subcommittee to formulate an answer to this critical problem. We must do all we can to prevent this problem from happening again in the future.

Mr. ROONEY. Our next witness will be the able and honorable John M. Sullivan, Administrator of the Federal Railroad Administration.

We would appreciate very much, Mr. Sullivan, if you would introduce your colleagues for the record.

STATEMENT OF HON. JOHN M. SULLIVAN, ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, ACCOMPANIED BY STEVEN DITMEYER, ASSOCIATE ADMINISTRATOR FOR POLICY AND PROGRAM DEVELOPMENT; RAY JAMES, CHIEF COUNSEL; AND BOB GALLAMORE, DEPUTY ADMINISTRATOR

Mr. SULLIVAN. I certainly will, Mr. Chairman. I have with me today Mr. Steve Ditmeyer, who is my Associate Administrator for Policy and Program Development; Mr. Ray James, my Chief Counsel; and, of course, you know Bob Gallamore, my very able Deputy.

Before I begin my formal statement, Mr. Chairman, I would like to make a few personal observations for you, and I guess they start from the fact that we are talking about an industry—as I mentioned earlier—that started the year with a negative \$40 million working capital position; and in the first quarter of the year lost \$158 million.

It would be hard to argue that the industry is providing best service to its customers and the Nation under these circumstances. The more I learn about railroads, their history, and problems, the more I realize that this situation is not only the result of heavy competition from trucks, barges, or airplanes—I would like to paraphrase Admiral Perry, if I may—"I have met the enemy, and it is us."

Government, and the burden of regulations that we forced the industry to carry are at the root of the railroad problem. In the

name of protection for the American people, the ICC has, in fact, been protecting some shippers at the expense of other shippers and the general economy, thus preventing railroads from making a reasonable profit. If the industry is not profitable, it cannot provide the best possible service.

We have substituted ICC management of the industry for competition, the law of supply and demand, and the ability of free market forces to properly allocate resources. The railroads are not even allowed to make a profit when the shipper is willing to pay a higher price.

An example of what I am talking about occurred recently. A major auto manufacturer who is dependent solely on ConRail for transportation from a major plant agreed to pay a higher rate for this service, so that ConRail could make a profit on the underutilized branch line that serves the plant. Despite the fact that both the railroad and its customer wanted to agree to a higher rate, it was impossible to get this past the ICC.

Mr. Chairman, I submit that I am glad that when I started out my business career I did not pick an industry that was so throttled by unrealistic regulations.

I will paraphrase, if I may, or go briefly through my formal statement, which will be submitted for the record.

Mr. ROONEY. Without objection your statement will be made part of the record. You may summarize it.

Mr. SULLIVAN. Mr. Chairman and members of the subcommittee, I am pleased to be here today to discuss important problems facing the railroad industry in the area of car and motive power utilization and their impact upon rail service adequacy.

Although current railcar shortages have affected commodities other than grain, fertilizer, scrap iron and steel, clay products and paper, among others, the effect of these shortages on the movement of field crops appears to be the most pressing problem.

The current shortage of grain cars began last September with the harvest of corn and soybeans. The recurrent peak-period car shortage normally eases by the end of the year, giving way to a surplus of cars which lasts until the hard winter wheat harvest the following summer. However, this past winter a number of events caused the shortage to intensify rather than disappear.

Export demand increased, resulting in higher grain prices. In addition to the new crop, there were large carryovers from the previous year. The higher prices attracted large quantities of last year's grain into the market suddenly. The transportation system was asked to move 2 years' crops in 1 year.

In December explosions destroyed major grain elevators in Westwego, La., and Galveston, Tex., reducing capacity at the gulf ports. Railcars on hand were reshipped to other elevators, and cars which were en route were reconsigned. The Westwego elevator received most of its grain by barge. Since the explosion some of its business has been shifted to facilities served only by rail, placing additional demands on the rail system.

There has been a large increase in the amount of corn exported through the Pacific ports—part of this has resulted from the elevator explosions. While the amount is still relatively small in com-

parison with total corn exports, the longer rail shipments are likely to tie up equipment longer.

The ICC, in attempting to assure equal treatment for all shippers, issued car service orders restricting the use of grain cars in unit trains. This has reduced the utilization rate of cars in grain service and thereby reduced total transportation capacity.

The shortage has begun to recede. However, it will probably intensify again as a result of the current wheat harvest. At present, inland waterway operation has returned to normal, and we understand the spot rates for barge transportation have begun to decline from their peaks of more than 350 percent of the base tariff, indicating that demand is falling. Additionally, most fertilizer movements have been completed, freeing more covered hoppers for grain service.

I would like to point out, however, that despite the car shortage, the railroads moved 30 percent more grain in the 5-week period ending June 17, 1978, than in the same period in the past 3 years. This surpassed even 1973's record shipments and was accomplished with 3,500 fewer car loadings per week because of increased use of jumbo hoppers.

Recognizing these demand fluctuations, Congress included in the 4-R Act a provision, section 202(d), designed to encourage the railroads to establish rates based on seasonal, regional, or peak-period demand for rail services. The freedom which has resulted thus far under the provision has been entirely inadequate. Only four demand-sensitive rates have been filed with the ICC, three of these on grain. Two of these cases show how this section of the 4-R Act failed to provide railroads adequate ratemaking freedom.

The Southern Freight Association published a peak-period rate increase of 20 percent on grain and grain products, to be applicable September 15 through December 15, 1977. This time period, which includes the fall harvest, is normally the time of peak demand. However, as discussed above, the export demand and the serious car shortages were most severe during the several months immediately after the peak-period rate expired.

Water and motor carriers continued to raise their rates as the car shortage worsened, while the SFA rate reverted to the historical and lower, offpeak level.

There is, in my statement, another case involving the ICG which is described therein, but I will move ahead.

I would like now to briefly comment on the ICC's role and actions taken in response to the car shortage. In his testimony before the Senate Subcommittee on Surface Transportation on July 12, Chairman O'Neal explained the actions which that body is currently pursuing. While we support some of these proposed actions, such as investigating the impact of grain inspection on freight car utilization, we strongly oppose what we consider to be a number of major steps backward in the area of rail operations, which the ICC is contemplating.

For example, the Commission is considering instituting train operation performance standards backed by reverse demurrage and penalty per diem; discontinuing of all unit train shipments during car shortages to accommodate small shippers; and asking for legislative authority to force the carriers to spend their inadequate

revenues on new locomotives and cars to be used solely at times of peak demand. We feel that such actions would place extreme and unfair burdens on the rail carriers, burdens which no other mode of transportation must shoulder.

As I have explained previously, much of the rail industry's problems with car distribution, especially in times of peak-period shipments, stems from the lack of market adjustment mechanisms; the fact that these mechanisms are available to competing modes forces the rail industry to bear the brunt of the shortage situations.

I find Chairman O'Neal's proposal to discontinue unit train service in times of shortage somewhat paradoxical since, by his own admission, the recent car service orders limiting such operations have had a very mixed effect. We recognize that the Commission has been acting to equalize the effect of car shortages, but we do not believe they should penalize efficient, economic rail service as the recent car service orders have clearly done. The new proposal would hurt railroad efficiency even more by slowing down total grain movements.

In addition to their proposal to eliminate unit grain trains, the ICC also proposes to encourage more short haul rail movements of grain to interior river stations for barge loading. The rationale for this latter proposal is apparently to achieve more rapid turnaround of cars due to the shorter distance involved. Yet, if these two proposals are put into effect, railroads would be placed in a position of being denied long haul revenues and trainload efficiency at a time when barge operations themselves may be limited by a lack of capacity. Clearly, the shipper's choice of transportation should be the result of healthy competition between the moves and should not be affected by these kinds of Government-imposed market constraints.

Under the joint sponsorship of FRA and the Association of American Railroads, the freight car utilization program is probing, testing, and encouraging implementation of every feasible means of improving both freight car utilization and its corollary, rail freight reliability. Six specialized task forces under the program include representatives of shippers, car builders, and leasing companies, Government agencies, and railroads. Members of the task force represent all disciplines of railroad operations and, as such, are able to promptly recommend and implement promising means of improvement.

I think, Mr. Chairman, I will let the rest of the statement go into the record and use the remainder of our time to respond to your questions, or questions the committee members might have.

[Mr. Sullivan's prepared statement follows:]

STATEMENT OF HON. JOHN M. SULLIVAN, ADMINISTRATOR, FEDERAL RAILROAD
ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Subcommittee, I am pleased to be here today to discuss important problems facing the railroad industry in the area of car and motive power utilization, and their impact upon rail service adequacy.

Although current rail car shortages have affected commodities other than grain—fertilizer, scrap iron and steel, clay products and paper, among others—the effect of these shortages on the movement of field crops appears to be the most pressing problem.

The current shortage of grain cars began last September, with the harvest of corn and soybeans. The recurrent peak-period car shortage normally eases by the end of

the year, giving way to a surplus of cars which lasts until the hard winter wheat harvest the following summer. However, this past winter a number of events caused the shortage to intensify rather than disappear:

Export demand increased, resulting in higher grain prices. In addition to the new crop, there were large carryovers from the previous year. The higher prices attracted large quantities of last year's grain into the market suddenly. The transportation system was asked to move two years' crops in one year.

The severe winter weather hampered both rail and barge operations. The weather caused poor locomotive performance and delays in the freight car movement cycle in both the Midwest and Northeast. An excessive number of covered hoppers remained on ConRail's lines longer than they should have. Barge operations were more than normally restricted by ice formation.

In December, explosions destroyed major grain elevators in Westwego, Louisiana, and Galveston, Texas, reducing capacity at the Gulf ports. Rail cars on hand were reshipped to other elevators, and cars which were enroute were reconsigned. The Westwego elevator received most of its grain by barge. Since the explosion, some of its business has been shifted to facilities served only by rail, placing additional demands on the rail system.

There has been a large increase in the amount of corn being exported through the Pacific ports (part of this has resulted from the elevator explosions). While the amount is still relatively small in comparison with total corn exports, the longer rail shipments are likely to tie up equipment longer.

The ICC, in attempting to assure equal treatment for all shippers, issued Car Service Orders restricting the use of grain cars in unit trains. This has reduced the utilization rate of cars in grain service and thereby reduced total transportation capacity.

The shortage has begun to recede. However, it will probably intensify again as a result of the current wheat harvest. At present, inland waterway operation has returned to normal, and we understand the spot rates for barge transportation have begun to decline from their peaks of more than 350 percent of the base tariff, indicating that demand is falling. Additionally, most fertilizer movements have been completed, freeing more covered hoppers for grain service.

I would like to point out, however, that despite the car shortage, the railroads moved 30 percent more grain in the five week period ending June 17, 1978, than in the same period in the past three years. This surpassed even 1973's record shipments, and was accomplished with 3,500 fewer car loadings per week, because of increased use of jumbo hoppers.

Recognizing these demand fluctuations, Congress included in the 4-R Act a provision (Section 202(d)) designed to encourage the railroads to establish rates based on seasonal, regional or peak-period demand for rail services. This freedom which has resulted thus far under the provision has been entirely inadequate. Only four demand-sensitive rates have been filed with the ICC, three of these on grain. Two of these cases show how this section of the 4-R Act failed to provide railroads adequate ratemaking freedom. The Southern Freight Association (SFA) published a peak-period rate increase of 20 percent on grain and grain products, to be applicable September 15 through December 15, 1977. This time period, which includes the Fall harvests, is normally the time of peak demand. However, as discussed above, the export demand and the serious car shortages were most severe during the several months immediately after the peak period rate expired. Water and motor carriers continued to raise their rates as the shortage worsened, while the SFA rate reverted to the historical and lower, off-peak level. In the second case, the Illinois Central Gulf (ICG), faced with a growing car shortage resulting from unforeseen and unpredictable causes, unsuccessfully sought ICC approval of a 20 percent peak period rate increase on one day's notice.

I would like to mention an additional item in connection with grain car shortages. One action which might help mitigate such shortages would be to alter existing customs regulations which complicate the temporary importation into the United States of Canadian hoppers. Canada's harvest is later than ours, and U.S. railroads have at times leased both cars and locomotives from the Canadian railroads. However, they have found the current customs regulations so burdensome that it is not worthwhile to lease a car on a very short-term basis. I understand that the Association of American Railroads (AAR) is working with the Customs Service to resolve these problems. We will be following this and assisting when we can.

I would now like to briefly comment upon the ICC's role and actions taken in response to the car shortage. In his testimony before the Senate Subcommittee on Surface Transportation on July 12, Chairman O'Neal explained the actions which that body is currently pursuing. While we support some of these proposed actions,

such as investigating the impact of grain inspection on freight car utilization, we strongly oppose what we consider to be a number of major steps backward in the area of rail operations, which the ICC is contemplating.

For example, the Commission is considering instituting train operation performance standards backed by reverse demurrage and penalty per diem, discontinuing of all unit train shipments during car shortages to accommodate small shippers and asking for legislative authority to force the carriers to spend their inadequate revenues on new locomotives and cars to be used solely at times of peak demand. We feel that such actions would place extreme and unfair burdens on the rail carriers, burdens which no other mode of transportation must shoulder. As I have explained previously, much of the rail industry's problems with car distribution, especially in times of peak period shipments, stems from the lack of market adjustment mechanisms; the fact that these mechanisms are available to competing modes forces the rail industry to bear the brunt of the shortage situations.

I find Chairman O'Neal's proposal to discontinue unit train service in times of shortage somewhat paradoxical, since, by his own admission, the recent car service orders limiting such operations have had a very mixed effect. We recognize that the Commission has been acting to equalize the effect of car shortages, but we do not believe they should penalize efficient, economic rail service, as the recent car service orders have clearly done. The new proposal would hurt railroad efficiency even more by slowing down total grain movements.

In addition to their proposal to eliminate unit grain trains, the ICC also proposes to encourage more short haul rail movements of grain to interior river stations for barge loading. The rationale for this latter proposal is apparently to achieve more rapid turnaround of cars due to the shorter distance involved. Yet, if these two proposals are put into effect, railroads would be placed in a position of being denied long haul revenues and train-load efficiency at a time when barge operations themselves may be limited by a lack of capacity. Clearly, the shipper's choice of transportation should be the result of healthy competition between the modes and should not be affected by these kinds of government-imposed market constraints.

Accordingly, I have instructed my staff to start an intensive investigation of the effect of the Commission's recent actions and proposals in this area, and to recommend alternate courses of action which will be more in the interests of an efficient transportation system and, therefore, of the U.S. economy. While a good part of this project will focus on the current shortage, it will also build on the work now in progress to develop long-range solutions to this aggravating problem.

Under the joint sponsorship of FRA and the Association of American Railroads, the Freight Car Utilization Program is probing, testing and encouraging implementation of every feasible means of improving both freight car utilization and its corollary, rail freight reliability. Six specialized task forces under the program include representatives of shippers, car builders and leasing companies, government agencies, and railroads. Members of the task forces represent all disciplines of railroad operations and, as such, are able to promptly recommend and implement promising means of improvement.

A recent breakthrough stemming from this program is the implementation of hourly car hire charges. On July 1, 1978, daily car hire charges (per diem) were replaced by a charge computed on an hourly basis. The new system should encourage more realistic train schedules and eliminate congestion in terminals caused by the bunching of trains meeting the former midnight deadline. Of perhaps greater significance is that provision of an hourly unit will provide a new costing tool for measuring the performance of rail yard and line personnel and stimulate further actions to improve utilization. While it is still too early to evaluate the direct results of this change, we are beginning to see positive signs that train operations are being modified to reduce interchange peaking. I am confident that the complex coordination actions to better match interchange schedules between carriers will soon produce major system benefits that will sharply enhance overall car and locomotive efficiency.

Another project which FRA has sponsored has been the development of a car-by-car, shipper-to-receiver scheduling system, to be demonstrated on the Missouri Pacific starting in October, 1978. This new development automates and centralizes all steps in the rail shipping process, from placement of a shipper's order for a car for loading to delivery of the car to the consignee. While unit trains and trainload movements of certain high volume commodities are becoming more common, we believe that improvements in the movement of single cars represent the most promising area for improving the utilization of freight cars.

Until recently, monitoring the movement of 1.7 million freight cars has proved to be an almost impossible task. Seventy percent of all shipments move over more

than one railroad, and almost all cars are available for use by other railroads. The system developed by the Missouri Pacific will enable railroads to achieve the same degree of control over a single freight car that a motor carrier has over a truck. Moreover, to make such control effective, these new techniques will impose a new discipline on field operating personnel. Carriers must become responsive to service and car ownership cost considerations, as well as to the train-operating costs which have dominated policy to date. Industrywide implementation of modern car-control management will help eliminate true car shortages and improve service. While complete acceptance will not take place immediately, changes of attitudes at key railroads with respect to these developments indicates that effective implementation is achievable.

Privately-owned freight cars, in some cases, can provide major economics and efficiencies for both railroads and shippers. Shippers who own cars are assured of a dependable car supply, and may receive a proportional reduction in tariff rates. Since railroads do not yet have the ability to enter into long term contracts for traffic, private cars represent, in effect, the only firm assurance that the shipper will ship by rail. Private car ownership dominates the tank car fleet, and is relatively common for high volume grain and coal movements. Again, we feel that, in many cases such ownership may represent the best source of equipment for all concerned parties. The ICC currently has a rulemaking in process on contract rates, and DOT has urged, in its filing in that proceeding, that contract rate authority be granted.

In brief, Mr. Chairman, FRA intends to sharply accelerate its activities in two major ways. First, we will develop recommendations for specific steps to be taken to minimize the near term effects of car shortages. Second, we will continue to enhance and disseminate car scheduling and control mechanisms through our cooperative demonstration program efforts with the railroads.

I believe these combined effects, coupled with more responsive rail pricing, will enable the railroads to capably fulfill the needs of the shipping public.

This completes my prepared statement, Mr. Chairman, and my colleagues and I would be pleased to answer any questions you may have.

Mr. ROONEY. Thank you very much. I want to commend you for getting this statement to the committee in ample time for us to review it.

Your testimony has not mentioned the technological improvements. What is FRA doing in this regard?

Mr. SULLIVAN. Well, I think I would ask Mr. Ditmeyer to go over that for you, since that is in his domain.

Mr. DITMEYER. Mr. Chairman, over the past few years the Federal Railroad Administration has sponsored research in a variety of data systems to improve the mechanism by which freight cars are traced on the railroads and, therefore, ways by which railroad management can better control the movement and allocation of their freight cars. These projects have taken place out in the Chicago Terminal area, the Grand Trunk Railroad, and on the Missouri Pacific Railroad.

Right now the research being done on the Missouri Pacific Railroad deals with the development of a data system in which car movements would be scheduled completely from origin to destination. Coming out of such a system information is available on the location of cars, availability and, therefore, the ability to allocate cars more rapidly. This is a demonstration program on the Missouri Pacific Railroad, yet we are very optimistic that if such a program is successful and is implemented on the rail system, that it would have a major impact on improving freight car utilization.

We have sponsored investigations into the performance of the automatic car identification systems. These other data management systems that I described to you, the Grand Trunk project was carried out using ACI scanners on the system; the Missouri Pacific data system is not based on an ACI system. Optical automatic car

identification is purely an input device to these data systems. As I have mentioned, we have done research into ways of improving the readability, but that is the extent of our work in ACI.

Mr. ROONEY. On page 4 of your statement, Mr. Sullivan, you state that the seasonal rate created in the 4-R Act is entirely inadequate, and you cited two instances where the railroads were unable to obtain a benefit.

Are you telling this committee that the 4-R Act is deficient, and if so, where is it deficient?

Mr. SULLIVAN. I would not describe it as a deficiency, Mr. Chairman. The intent here is to surmise that the ICC, in its interpretation of the flexibility that is provided in the 4-R Act, has not used the latitude that has been provided it by the Congress.

Mr. ROONEY. Mr. Madigan?

Mr. MADIGAN. Mr. Sullivan, in the third paragraph of your statement, on page 3, you say—and I would like to quote:

I would like to point out, however, that despite the car shortage railroads moved 30 percent more grain in the 5-week period ending June 17 than in the same period in the past 3 years.

That is apparently the last 3 weeks in May and the first 2 weeks in June, and you seem to attach some significance to that, as though that is a significant accomplishment on their part—which it may be. It also may not be very much of an accomplishment at all if normally the railroads are not required to move very much grain during that period of time, which seems to be at least possible to be the case here.

If in fact the shippers wanted to move the grain in January, and February, in March, and in April and were not able to move it, then it was left there in May and June, and the railroads were moving something that they normally would not be moving at that time. Is that not possible?

Mr. SULLIVAN. I would say that is possible, yes, sir.

Mr. MADIGAN. Do you know whether or not that is the case?

Mr. SULLIVAN. I think what we are describing here is the achievement of the railroad industry at a time of acknowledged car shortage, of moving more grain than has ever been moved in a single period, including the generally recognized peak period of 1973, at the time of the Russian grain orders.

Mr. MADIGAN. But you know, if I was in the cab business and everybody wants to ride a cab the week before Christmas, and nobody wants to ride a cab over the Fourth of July weekend. Now, if I did not take any of those people where they wanted to go at Christmastime and they were still there the Fourth of July, and I took them then I could say, "I have hauled more people over the Fourth of July weekend than I ever did before," when in fact what is represented here is a failure to move what people wanted to move, when they wanted to move it, rather than any kind of accomplishment.

Mr. SULLIVAN. Well, I think you are going to always have that condition, and I would submit that even if the Federal Government put all of its finite resources into freight cars there would be times when something should be moved from point A to B, and there was enough volume that it would be impossible to get it done.

Mr. MADIGAN. Mr. Sullivan, you have a billion dollars in guaranteed loan authority, under title V of the 4-R Act, to make loans to railroads to purchase rolling stock, and make other kinds of improvements.

Now, I understand that you have loaned, or signed on guaranteed loans in the amount of only \$10 million—that \$990 million of that \$1 billion has not been used in any way by your agency. Is that a correct statistic?

Mr. SULLIVAN. Well, when you say \$1 billion, Mr. Madigan, actually we do not have that much appropriated to this point in the program. But in the loan guarantee program we have never had applications from the industry that come anywhere close to matching the amounts that we even had appropriated. We feel that the reason for that is that this becomes a business judgment on the part of management to decide whether to contract for debt which, after all, will cost them money, and they have to look to their future profitability to repay that debt, and to service the interest charges thereon.

So, the fact that there have not been very many of these types of application means that we cannot move ahead with them as fast as the Congress might have contemplated. However, we do have a large number of loan guarantee projects that are due in the very near future.

Mr. MADIGAN. Well, let me ask the question this way: You have issued \$10 million guaranteed loans; is that correct?

Mr. SULLIVAN. I think it is more like \$42 million.

Mr. MADIGAN. What is the total amount of the applications that you have received?

Mr. SULLIVAN. I can supply that for the record, I do not have it with me today.

[The following material was received for the record:]

RAILROAD REVITALIZATION AND REGULATORY REFORM ACT OF 1976 APPLICATIONS RECEIVED AND AGREEMENT EXECUTED
AS OF JULY 31, 1978

[In millions of dollars]

| | Preference shares | | Obligation guarantees | |
|---|--------------------|---------------------|-----------------------|--------------|
| | Application(s) | Agreement(s) | Application(s) | Agreement(s) |
| By applicant: | | | | |
| Chicago, Milwaukee, St. Paul & Pacific RR. Co | \$33.8 | ¹ \$33.8 | \$21.4 | \$21.4 |
| Chicago & North Western Transportation Co | ² 145.4 | 24.6 | 17.6 | 17.6 |
| Columbus and Greenville Ry | 4.1 | 4.1 | | |
| Chicago, Rock Island & Pacific RR. Co | ² 59.0 | | ² 88.2 | |
| Illinois Central Gulf RR. Co | 164.7 | 23.9 | | |
| Boston & Maine Corp | 25.9 | | | |
| Peoria & Pekin Union Ry. Co | 3.5 | | | |
| Missouri-Kansas-Texas RR. Co | | | 16.5 | 16.5 |
| Delaware & Hudson Ry. Co | | | 8.0 | 8.0 |
| Utah Ry. Co | 4.9 | | | |
| Total | 441.3 | 86.4 | 151.7 | 63.5 |
| By type of project: | | | | |
| Facilities | 437.3 | 86.4 | 25.9 | 18.7 |
| Equipment | 4.0 | 0 | 125.8 | 44.8 |
| Total | 441.3 | 86.4 | 151.7 | 63.5 |

¹ 2 agreements.² 2 applications.

Mr. MADIGAN. Would you estimate that you have obliged half of the requests, one-fourth of the requests; what percentage?

Mr. SULLIVAN. Well, I guess the way to answer that is that we are trying to properly oblige all of the requests. In certain instances, taking the Rock Island, which has gotten considerable publicity, they had come in to us in round numbers for a total of \$160 million, divided between preference share assistance and loan guarantees. In their case we have offered them, on track structure work, \$50 million in a unique way where, if they would separate the assets involved and incorporate them under a separate corporation, we could guarantee \$50 million on financing on that. We are very close to agreement with them on loan guarantee funding for \$32 million.

Mr. MADIGAN. That is a separate program, is it not?

Mr. SULLIVAN. Yes. But in that case we can find the security for the loan for that \$32 million in the rolling stock itself, so that we are moving ahead with that.

As I say, we can supply you a full listing of that. For the 1977 funds involved we got our nearly all except the \$50 million that were added to the program at the end. I think that for the fiscal year 1978 programs on preference shares we will come very close to obligating the appropriated moneys. The loan guarantees have been falling behind, but I think by the end of this year, between the two programs, we will have committed to the railroad industry in title V assistance \$413 million.

[The following material was received for the record:]

FINANCIAL ASSISTANCE UNDER TITLE V OF THE RAILROAD REVITALIZATION AND REGULATORY REFORM ACT OF 1976

[In millions of dollars]

| | Redeemable preference shares | Obligation guarantees |
|---|------------------------------------|--------------------------|
| | Section 505 | Section 511 |
| Amount authorized | \$600.0 | \$1,000.0 |
| Amount appropriated (through September 1978) | 320.0 | 600.0 |
| Amount applied for (through July 31, 1978) | 441.3 | 151.7 |
| Amount obligated (through July 31, 1978) | 86.4 | 63.5 |
| Additional amount expected to be obligated (through September 30, 1978) | ¹ 230.0 | ² 33.5 |

| | | | |
|-----------------------------|---------|--|--|
| ¹ C. & N.W. | Million | | |
| B. & M. | \$124 | | |
| I.C.G. | 26 | | |
| | 80 | | |
| Total | 230 | | |

² Rock Island \$33.5 million.

FEDERAL RAILROAD ADMINISTRATION TITLE V ASSISTANCE OBLIGATIONS

[In millions of dollars]

| Railroad | Type | Purpose | Amount |
|--|-----------------------|---|--------|
| Missouri-Kansas-Texas | Obligation guarantee. | Rehabilitate track between Durant, Okla., and Whitesboro, Tex.; and between Fort Worth and Temple, Tex. (195 miles). | \$16.5 |
| Chicago, Milwaukee, St. Paul & Pacific | Preference shares. | Track repair between Milwaukee, Wis., and Minneapolis, Minn. (316 miles). | 33.8 |
| Do | Obligation guarantee. | Repair 950 freight cars and 111 locomotives | 21.4 |
| Chicago & North Western | Preference shares. | Rehabilitate four track segments between Chicago and Fremont, Nebr. (95 miles). | 24.6 |
| Do | Obligation guarantee. | Rehabilitation of 2,160 freight cars | 17.6 |
| Illinois Central Gulf | Preference shares. | Rehabilitation work on two track segments between Memphis, Tenn., and Jackson, Miss., and between Edgewood and Bluford, Ill. (253 miles). | 23.9 |
| Columbus & Greenville | do | Track repairs between Columbus and Greenville, Miss. (133 miles). | 4.1 |
| Delaware & Hudson | Obligation guarantee. | Locomotive refinancing | 8.0 |
| Total obligated | | | 149.9 |
| PENDING AGREEMENTS (FISCAL YEAR 1978) | | | |
| Chicago & North Western | Preference share .. | Completion of Chicago-Fremont track rehabilitation | 124.0 |
| Boston & Maine | do | Rehabilitation of main line between Boston and Mechanicville, N.Y. | 26.0 |
| Rock Island | Obligation guarantee. | Repair of 2,900 freight cars and acquisition of 19 locomotives. | 33.5 |
| Illinois Central Gulf | Preference shares. | 1979-80 work program on Chicago-New Orleans freight line rehabilitation. | 80.0 |
| Total pending agreements | | | 263.5 |
| Grand total obligations planned Sept. 30, 1978 | | | 413.4 |

Mr. MADIGAN. Which will be approximately half of what you were given to appropriate.

Mr. SULLIVAN. No, it would be slightly less than half of the amounts appropriated through the end of the year. Estimated preference share obligations at the end of fiscal year 1978 are expected to be 99 percent of amounts appropriated, obligation guarantees—16 percent. The aggregate percentage is 45 percent. This, of course,

is dependent on the actions of the reorganization courts in the case of the bankrupt railroads and on the levels of funding requests to be made by other railroads.

Mr. MADIGAN. You have a billion dollars?

Mr. SULLIVAN. You are thinking of the billion. Six hundred million dollars has been appropriated so far, so, \$97 out of \$600 million would be the figure.

Mr. SKUBITZ. Will the gentleman yield?

Mr. MADIGAN. Yes, in just one second I will.

I do not want a suggestion to prevail here, or a hint that you are in some way constrained in moving ahead on this by the Appropriations Committee because, in fact, they are going to react to what appears to be your need. Your activity is going to determine what your need is. So, if you have some bias against moving out with this program, Mr. Sullivan, and are not very active and are not trying to get this money out, then the Appropriations Committee would view you as not having any need and would not be giving you the money. Is that not correct?

Mr. SULLIVAN. I understand your logic. I think the title V assistance has a natural constituency which is the weak railroads, and they have finite requirements and ability to spend. I think that when you are talking about track structure improvements, and individual railroad could probably usefully spend \$25 million a year. And, as I say, in the case of equipment financing it is very often possible for them to get their financing done through the normal private sector channels.

But I guess what I am trying to say is, I do not have the feeling that we have held up any programs where, for instance, freight car shortages are affected. In the case of the Milwaukee Railroad, which is in bankruptcy, I expect to sign up on the 31st, which would be this Friday, for \$45 million to add to the sum \$9.3 million which we have already given them. And they are in bankruptcy.

Mr. MADIGAN. How long was that application pending from that railroad before you have acted on it?

Mr. SULLIVAN. I guess that application came in shortly after the trustee took over the railroad. The railroad went into bankruptcy in December of last year, and actually the application prior to bankruptcy had been there, and we would have been ready to move ahead. But the bankruptcy intervened and we had to wait for the trustee to survey the situation and decide that that in fact was what he wanted to go ahead with.

The Milwaukee's original application for preference share financing was submitted on December 21, 1976, in the amount of \$91.7 million. On July 15, 1977, an interim project in the amount of \$9.3 million was funded as an integral part of the original application. Following the railroad's entry into reorganization proceedings, the trustee submitted a revised project proposal in the amount of \$24.5 million which was funded in an agreement dated July 31, 1978.

The Milwaukee's original application for obligation guarantees (\$17.8 million), submitted on December 21, 1976, was contingent on approval of the preference share financing application. On September 7, 1977, the Milwaukee submitted revised project proposals which were subsequently adjusted by the trustee and incorporated in an agreement in the amount of \$21.4 million on July 31, 1978.

Mr. MADIGAN. You do not have the date when the original application that was prior to the bankruptcy, you do not have the date when that application would have come in?

Mr. SULLIVAN. We can supply that for you. The date of the Milwaukee's original filings was December 21, 1976.

Mr. MADIGAN. I will yield to the gentleman from Kansas.

Mr. SKUBITZ. Just one question. Mr. Sullivan, I believe I understood you to say that you held out to the railroads that you are ready and willing to make some guaranteed loans; is that correct?

Mr. SULLIVAN. Yes, sir.

Mr. SKUBITZ. And they have not come forth?

Mr. SULLIVAN. The applications have not come forth in the quantity that we would have expected.

Mr. SKUBITZ. Well, they tell me the reason they do not like to make these requests is because they tie too many strings to them. Now, is that correct, or not?

Mr. SULLIVAN. I guess what we are doing, Mr. Skubitz, is complying with the law. To my knowledge we are administering a loan program, and the definition of a loan is something that is given in expectation of repayment. In fact, I guess we had to react to the fact that the GAO reviewing the assistance that was flowing to the bankrupt railroads at the time of the northeastern bankruptcies were very critical of FRA and the fact that there were not sufficient controls over the flow of the moneys to ConRail.

So, we have tried to liberalize that sort of thing, as I testified here before, after Secretary Adams took over and after I came aboard, we scrutinized the title V regulations very closely to liberalize them, and since that time we have entered into agreements, are proceeding toward agreements with practically all of the railroads who at an earlier date had expressed some objections to the extent of the requirements that we put on the title V money. So, I think we have solved those problems.

Mr. SKUBITZ. Will the gentleman yield further?

Mr. ROONEY. The gentleman's time ran out 10 minutes ago.

Mr. SKUBITZ. Thank you.

Well, pursuing that point a little further, you say that by law you are required to make, as I understand you, safe, sound loans. Therefore, if you have a railroad that is in bad straits, you would not give them any money because it would not be a sound investment. And if a good railroad came in and asked for some money, then the financial organization would say, "Hey, there is sure something wrong with this railroad if they are going to you folks for a loan."

Now, if that is the circumstance, could that be the reason?

Mr. SULLIVAN. I think that could be part of the reason for some of the healthier railroads, would be the stigma, as it were, of having it publicly known that you are seeking Federal financing; you would end up with your stock-buying public and your investing public afraid that you were in worse shape than they had otherwise thought. It might slow up some of the railroad stock.

Mr. SKUBITZ. Now that we have gotten the healthy lines out of the way, is the same true with the weaker lines, then because they cannot put up the security? Why, they know they are not going to

get the money, or you tie so many strings to it, they cannot afford to do business with you.

Mr. SULLIVAN. What I am saying, Mr. Skubitz is that in the case of bankrupt railroads as well as nonbankrupt but weak railroads, we have gotten most of those obstacles out of the way and are proceeding to complete agreements.

Mr. SKUBITZ. When did you get them out of the way?

Mr. SULLIVAN. I think it is an ongoing dialog. The first relaxation of the regulations came in, I would say, June, July, and August of last year when Secretary Adams asked me to look into that. We asked Mr. James here, Woodie Price, the special assistant to the Secretary, and Mr. Swinburn, who is the associate administrator for assistance to spend several days reviewing line by line the regulations, to try to relax them, in subsequent dialog with the Chicago and Northwestern, with the Illinois Central Gulf and other railroads. Where they had objections we tried to negotiate conditions that were acceptable to both parties, and we have done so, I believe. We are proceeding to agreement, I think, with the ICG on approximately \$80 million of assistance. We will have given over \$50 million to the Milwaukee, even though they are bankrupt. We have \$83 million, potentially, going to the Rock Island. We are close to agreement with the trustee of the Boston and Maine, which also is in bankruptcy.

So, I guess what I am saying is, we think that we have cleared away these obstacles to the satisfaction of the railroads who have been making applications to us.

Mr. SKUBITZ. Then you are relaxing your program some, so that they can get money; is that it?

Mr. SULLIVAN. There are a variety of mechanisms. It gets into a lot of nitty-gritty detail in the case of the Rock Island funding through, I think, the provisions of section 511(g), our security for repayment in the rolling stock itself. In the case of the Rock Island's track structure work, it is on a line we consider to be an essential line that should be helped. And where the overall corporate picture of the Rock Island would keep us from finding security for that loan we say we can find it if they could isolate those facilities under a separate corporation; then we would be willing to put \$50 million into that, to help that corporation.

So, depending on the individual circumstance and the individual objection of railroad management, we have tried to accommodate them.

Mr. SKUBITZ. I was just going to suggest, if you did not change to some degree, why, there was not much sense in having the program because if the healthy railroads will not come in, and the poor ones cannot get anything anyway, what is the use of having you, or this program.

Mr. MADIGAN. Would the gentleman yield?

Mr. SKUBITZ. One other question. Would you suggest that we change the law in some way in order to make it easier for the railroads to get more money?

Mr. SULLIVAN. I believe there will be some legislative recommendations that will flow out of the 504-901 report; I do not have them at my fingertips right now.

Mr. SKUBITZ. I yield to my colleague.

Mr. MADIGAN. I just want to make sure that I understood what Mr. Sullivan said. I believe that you used the figure \$413 million as being the total of what you would have obligated. Is that all of the title V money, both redeemable preference shares and the guaranteed loans; or are you talking about a total of the two?

Mr. SULLIVAN. I think the \$97 million would be the loan guarantees. The preference share side of it would be \$316 million.

Mr. MADIGAN. So, you believe that you will have obligated \$800 million?

Mr. SULLIVAN. \$413 million by the end of this year.

Mr. MADIGAN. Out of both programs?

Mr. SULLIVAN. Out of both programs.

Mr. MADIGAN. Or roughly one-fourth of the authority that you have in the 4-R Act.

Mr. SULLIVAN. It sounds to me like a little over a half.

Mr. MADIGAN. Well, it is \$1.6 billion. So, it is a fourth.

Mr. SULLIVAN. Yes, if you want to take the \$1.6 billion.

Mr. MADIGAN. Well, I want to comment to you, Mr. Sullivan, I realize that you have not been down there since the beginning, but that authority, now, is 30 months old. And in a 30-month period of time you have managed to obligate roughly one-fourth of the authority that you were given. And in that period of time several railroads have gone bankrupt.

Those of us who voted for that program did so in the hopes that we would, through the program, avert these bankruptcies which have now occurred. We hope—I know that Mr. Skubitz has already said this to you, but I want to say it also—we hope that your agency will be more active in that regard.

Mr. SULLIVAN. Mr. Madigan, if I may respond to that. I would not want this committee to have the feeling that title V moneys as such will keep any railroad from going bankrupt. I think we have to keep in mind that railroads are private companies that operate with revenue that has to cover their expenses. Now, if railroad A, say, is operating at \$500 million a year and breaking even, if they came to us for \$500 million worth of title V loan guarantees and put it into projects that did not add to their revenue, add to their profitability, it would only enhance their chances of going bankrupt. So, I think the idea that title V moneys as such can keep any railroad from going bankrupt is one that I would never subscribe to.

Mr. MADIGAN. Well, if that \$500 million that you are using as a hypothetical situation was used to buy railroad cars, or to fix track that otherwise was not capable of being operated over, and if either of those things contributed to the gross revenues and subsequently to the net profit of the railroad; and if they were able to acquire that money on a 30-year basis at an effective rate of 2 or 3 percent interest, then the railroad sure as hell would have been bailed out, Mr. Sullivan. That is what this thing is all about.

Mr. SULLIVAN. Well, Mr. Madigan, I have to respectfully disagree. The case of the Midwest is one in point which we have been talking about, and it is one where it is generally agreed that there is excess rail capacity out there. So that I would have to ask that, if we did as you say, and you are anticipating more rail revenue, the next question would be, where is that going to come from? And in

an area of excess capacity it can only come from some other railroad. So, we would end up, perhaps, having more railroads possibly going bankrupt because there is simply not enough business out there to support the size and cost of the rail structure that is out there.

So, again I would say, it is not correct to think that title V is there to keep railroad corporations from going bankrupt. I happen to think that a major problem in the railroad industry is that railroads are not allowed to go bankrupt and then liquidate their assets when, in fact, there is marginal or no chance of reorganizing on an income basis to come out with a viable railroad corporation.

So, here again, we have said publicly so many times, we do not support the idea that every railroad corporation that is now in existence should be kept out of bankruptcy. It is sad, but it is true. In fact, keeping too many weak railroads going through Government assistance will only drag out the problem and make it worse.

Mr. MADIGAN. I do not contest that logic of yours at all. I wonder about the logic of a person who testifies and says that the railroads have moved more grain than they have ever moved before; that the overseas sales of U.S. grain are greater than they have ever been before; that the overseas sales of U.S. grain in 1977 were a record, and that the amount of that grain that moved by train was a record. That seems to suggest that there was more business in 1977 moving U.S. grain than there had ever been before. Now, you say that on one hand, and then on the other hand you talk about too many railroads and too big a physical plant.

That may be true, Mr. Sullivan, but there are not too many railroad cars to move grain—there are not enough. There are fewer than there were in 1960, but there is more grain moving than there was in 1960, and that is the problem. You have the authority to alleviate that problem, and I think you ought to use it. That is what I am saying to you.

Mr. SULLIVAN. Thank you, sir.

Mr. ROONEY. Mr. Skubitz?

Mr. SKUBITZ. Mr. Sullivan, how many applications have been turned down that have been submitted, and then resubmitted?

Mr. SULLIVAN. I would have to supply that for the record, Mr. Skubitz.

Rejection of applications is not an issue. Our established procedures encourage preapplication conferences in which a prospective applicant describes his proposed project to us and we in turn present to him the statutory and regulatory framework in which the project will be evaluated. In the preapplication conference, we make no conclusive judgment with respect to a proposed project. However, by dealing early enough with a proposal, the prospective applicant is better able to address possible issues and alternatives before filing a formal application and we mutually benefit by the preparation of sounder application, or a decision not to file one, as the case may be.

Where an application for the purchase of preference shares under section 505 clearly would fall outside of the statutory and regulatory framework for such financing, we encourage prospective applicants to consider a submission for a guarantee of obligations

under section 511, which generally is more readily available for qualified projects.

It is not to be concluded from the foregoing that every application is full and complete as submitted. Generally a good deal of communication with the applicant is needed before we have all the information we need to complete our evaluation of the soundness of the project and the security of public funds involved. Notwithstanding, it is our practice to work closely with the applicant until all the necessary information is obtained, rather than to reject an application out of hand for incompleteness.

Mr. SKUBITZ. Is there an application fee charged when they submit an application?

Mr. SULLIVAN. Yes, for section 511 applications.

Mr. SKUBITZ. Why?

Mr. SULLIVAN. I will let Mr. James reply to that.

Mr. JAMES. Yes, sir, a fee is usually charged to cover in part administrative costs, and to discourage multiple applications that railroads may not be serious about pursuing, which would take our time and divert our attention from applications that are seriously intended.

Mr. SKUBITZ. Well, are these fees responsible for discouraging railroads to make applications?

Mr. JAMES. I doubt very much, sir, that they discourage any railroad.

Mr. SKUBITZ. How much do these fees run, roughly?

Mr. JAMES. One-eighth of 1 percent of the amount of the guarantee being sought.

Mr. SKUBITZ. Not peanuts, then, is it?

Mr. JAMES. No, for a \$100 million application, for example, we are talking about something in the \$50,000 to \$125,000 range. But again, I am just trying to give you a rough estimate.

Mr. SKUBITZ. The way you are loaning money, though, and the fact that the smaller railroads, or the weaker ones cannot get it; and the larger ones do not want it; and the fact that you are charging a fee, who would want to test you in the first place to see if they could get an application through?

Shall we go on, Mr. Chairman, with our questioning? I have only three or four more questions I wanted to ask the witness.

Mr. Sullivan, you talked about the current shortage of grain cars began last September. I have news for you, I have been around this place for 34½ years, and in 34½ years, and being associated with either the Interstate Commerce Committee of the House or the Senate, frankly, I do not remember one single year that there was not a grain car shortage. I cannot remember a single instance when not nearly the same reasons were given for the shortage. One of them is severe winter—that was always a good one. The December explosions—they did not come as often then as they do now.

But the same reasons that they are giving you are the reasons they have given every year for 34 years. So, do not taken in by some of these excuses that are given to you by the operating companies.

I will say one thing, Mr. Chairman, in the years gone by that usually the railroad presidents, operators of railroads were much more on their toes when they came to deal with Members of

Congress and the Senate. In past days when we used to say, "Hey how about getting some cars, why the shortage?" They would break their backs to get them down there. They are not paying any attention to us any more.

Mr. ROONEY. Thank you very much, Mr. Sullivan. There is a vote on. The committee will stand in recess for 10 minutes.

Mr. SKUBITZ. Oh, Mr. Chairman, I do have one more question that I wanted to ask the gentleman before they are excused.

Suppose some poor little stepchild railroad that has a father that is pretty nasty to it, and papa asks that they turn out around \$14, \$15 million worth of dividends to them last year, and then the railroads are in pretty hard straits and should come to you and ask you for some money in order to buy more equipment. Would you look with favor upon that sort of an application?

Mr. SULLIVAN. Mr. Skubitz, as I have been testifying, we look with favor on all applications for title V assistance. Actually, in the case of a dividend-paying railroad I think we do try to ask them to forego dividends while title V moneys are flowing to them.

Mr. SKUBITZ. I would not think you would do that. I am just wondering, has the L. & N. asked for any money recently from your coffers?

Mr. SULLIVAN. The L. & N. has had some preapplication conversations with us. We do not have a formal application as yet.

Mr. SKUBITZ. Maybe they do not have \$100,000 for their application.

Mr. SULLIVAN. We are running out fast.

[Brief recess.]

Mr. ROONEY. Our next witness will be Mr. William H. Dempsey, president and chief executive officer of the American Association of Railroads.

Mr. Dempsey, I would like to take this opportunity to commend you and your association for the great help you gave this committee in the defeat of the coal slurry pipeline last week. The outstanding work you and your association accomplished made possible that overwhelming defeat.

STATEMENT OF WILLIAM H. DEMPSEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ASSOCIATION OF AMERICAN RAILROADS, ACCOMPANIED BY DONALD WOODEN, DIRECTOR, FREIGHT CAR UTILIZATION COOPERATIVE RESEARCH PROGRAM; WILLIAM J. HARRIS, JR., Ph. D., VICE PRESIDENT, RESEARCH AND TEST DEPARTMENT; RICHARD BRIGGS, VICE PRESIDENT, FINANCE AND PUBLIC RELATIONS; JAMES E. MARTIN, VICE PRESIDENT, OPERATIONS AND MAINTENANCE

Mr. DEMPSEY. Mr. Chairman, you have anticipated the subject that I wanted to begin with because I wanted to express the appreciation of the industry, particularly to you as chairman and to the members of your committee because without the leadership of this committee that legislative result could never have been obtained. The reason that I intended to say that was not simply to make it a matter of public record, but because it does bear upon the subject that we are discussing today.

If the coal slurry legislation had been enacted, the opportunity of the industry to raise the capital that will be necessary over the

next decade or so to carry the increased amounts of coal that will be mined in this country, would have been severely impaired.

I would like to—because of the importance and complexity of this issue I have, as you see, more than my usual complement of associates with me—and I would like to introduce them to the chairman.

At my far left is Mr. Don Wooden, who is the director of the Freight Car Utilization Cooperative Research program. Next to him Dr. William Harris, who is a vice president of the association for research and test; on my immediate right, Mr. Richard Briggs, our vice president for economics and finance, and next to him Mr. James Martin, who is our vice president of operations.

I have a statement that I have submitted, which I would like to ask be incorporated in the record, and I would then proceed to summarize it.

Mr. ROONEY. Without objection your statement will become part of the record, and you may summarize.

Mr. DEMPSEY. Before addressing the freight car shortage problem I would like to speak more generally to the question of the improvement of the utilization of freight cars; it is a related issue, but it is a discrete issue.

The main point that I would like to make is that it is a terribly, terribly complicated question, and it is one in which our industry has an enormous stake. As, I believe the chairman pointed out at the outset, we have as much incentive as business could possibly have to improve the utilization of freight cars. The cost of these cars has gone up at an astronomical rate, something in the way of 60 percent over the recent 2-year period; the financing charges are going up on these capital investments as well as all others. So, we have for some time been deeply concerned with the improvement of freight car utilization.

It was for that reason that several years ago we established the so-called freight car utilization research and demonstration program. Now, it has been suggested that the Federal Government might play a role here, and I simply want to underscore the fact, as Mr. Sullivan did—and parenthetically, let me say that I describe wholeheartedly to Mr. Sullivan's testimony; I thought that his analysis of the problems we confront with respect to freight car utilization was exactly on target.

In any event, the Federal Government does participate in this project in a very important way. FRA has been extremely helpful both in funding and working with us. Besides the Federal Government, this project involves shippers, railroad supply companies, and it is a long-term and very intensive effort to bring about the increased utilization of freight cars. Now, it is a complicated program and I will not go into any detail here, but it is described in detail in an appendix to my testimony.

It is this form of Government participation, I may suggest, that is helpful. And it is because of the complexity of the problem. Because of that complexity the problem cannot be assisted, but rather can only be worsened by the kind of simple-minded governmental cases that we are getting out of the Interstate Commerce Commission now—and I mean to return to that subject in more detail in a few moments.

Just by way of outlining the complexity of the problems I just want to touch upon some of the component elements that go into this problem of freight car utilization.

First of all, we do not have a situation where one company determines the size and composition of the freight car fleet. We have a situation in which we have a number of railroad companies, we have shippers, we have freight car leasing and owning companies, and they all make their contribution to the fleet; and they all make their individual determinations about how many cars there are going to be added to the fleet, and about what their design is going to be—whether they are going to special purpose cars, or whether they are going to be general purpose cars that have a greater opportunity for utilization.

These finds of determinations about design also affect the long-term life of the cars and their repair needs.

And then, second, we have the problem of distributing our empty cars. How do we do that? As the chairman knows, as the committee knows, unhappily we are not in a situation in which every time we unload a car we can at that spot load it. So, we have a good deal of empty movement, and the problem is how to cut back on this empty movement. Now, procedures have been developed to cut down on the amount of empty movements. They depend very largely upon computerized management information systems, which are of extraordinary complexity and sophistication. We think these methods can be improved, and we are hard at work on trying to improve them.

Then, third, we have a question of the time in which freight cars are loaded and unloaded. That time can be affected by any number of considerations, most of them under the control of the shippers and the consignees. For example, the things that they take into account are their 5-day workweek in industry; priorities that they might have in loading trucks in preference to railcars; the kinds of charges, demurrage rules and charges that they have to pay; the use of the cars for temporary storage of their commodities; overordering of cars by shippers. And the, on the railroad side by the placement of cars that are considered to be unsatisfactory for one reason or another by the shippers, and things of that sort.

And then, next I would like to note that we have problems of the speed in which the car is moved. Now, there are ways in which we can move cars more speedily through terminals, or by bypassing terminals. But every time we consider one of these methods we have to consider what the additional cost will be in terms of equipment, that is to say, additional switch engines, and in terms of crews. It often is the case that the additional costs that are associated with moving those cars through a terminal more swiftly are greater than the compensating benefits that we would receive in terms of the car-hire costs and the improved service.

I have to note here also that the contractual labor obligations that we have, have a bearing. For example, the contractual obligations that determine how many members we must have on the crew, the so-called crew consist issue with which this committee, I am sure, is familiar. It is our conviction that if we could, in some circumstances, operate with a reduced crew, that we could then run shorter trains, and then we could bypass terminals much more

frequently. That obviously would increase the utilization of cars. These are matters which are under constant discussion between the unions and management. Considerable improvements have been made in recent years, and I am very hopeful that such improvements will continue.

Pricing of rail service has an impact—and a great one—on the way in which cars are utilized. There is an extreme variation in the demand for freight cars, and, of course, the agricultural peaks and valleys are the paradigm of that sort of thing. One way of meeting it is the way the bargelines meet it, that is to say, by increasing their prices dramatically during times of peak demand. Either last week or the week before, the barge prices were up between 300 and 350 percent on the spot market over their tariffs. They do that without any regulation at all. They do that over lunch with the shipper; they do it—if I were before the Ways and Means Committee representing the administration I would say—they do it between the second and the third martini. We, on the other hand, have to deal with the Interstate Commerce Commission, and the way that the Interstate Commerce Commission has interpreted that part of the Quad-R Act, they simply made this a virtually useless pricing mechanism, for reasons that Mr. Sullivan gave in more detail.

We are considering other kinds of pricing innovations. For example, the use of reduced backhaul rates so that we can put loads into what would otherwise be empty equipment. But I am frank to say that in view of the way in which the Interstate Commerce Commission has handled the rate reforms of the Quad-R Act, that we are quite apprehensive that we will be stymied in these pricing tactics as well. If they were available to us, however, they would be very helpful in improving our car utilization.

Every company has its own system for managing the movement of cars on its lines; these systems involve complicated information-gathering systems, methods of management analysis. We have, then, the even more complex task of managing the use of freight cars throughout the Nation because, of course, cars move freely from the lines of one railroad to another and that job, that larger management job, is preeminently the task of the Association of American Railroads.

We function through a very complex array of standing technical committees of railroad people. For example, the mechanical division establishes the specifications for freight cars and their maintenance. The operating and transportation division establishes the ground rules for the interchange and the use of the cars; and our car service division enforces these operational rules with our car service orders. We have a computer-assisted information system, the most important of which is the so-called train II system, which we developed. This is a very sophisticated system which has been developed over a number of years as the result of the work of tens of thousands of railroad industry people in one form or another.

Now, let me turn—having, I hope, established in summary form, at any rate, that we are dealing here not only with a very important problem, but also with a terribly complex problem that is receiving the intense attention of the industry as well as our

partners in the FRA and in the shipping and carbuilding community—let me turn to the current car shortage.

We have experienced a major car shortage in recent months—it is really redundant for me to say that. I would like, however, to advise the committee that that situation is swiftly improving. I will simply give you some representative figures which are not in my prepared statement.

We hit our peak shortage period for all cars in the week ending April 22. At that point we had a shortage of 62,000 cars. As of our last reporting period, the week of July 15, that 62,000 figure is down to 38,000—that is all cars. Now, for covered hopper cars the two comparable figures are 37,201 as against currently 20,000, or just a little under 20,000. For general service hopper cars—I am talking about coal cars—we had our worst shortage in the week ending June 18, we had a shortage of 8,100 cars at that time. That has now been more than halved, that shortage, by the week of July 15. We are now down to 3,700 cars in terms of shortage.

Everyone is familiar with the reasons. Mr. Sullivan has gone into them in even more detail than I have, in his statement, Mr. Skubitz indicated that they are not unusual, and indeed, they are not, but they are unusual in their extremity. We had a sudden and unforeseeable increase in the world price of grain a few months ago, and that produced an extraordinary demand for grain shipments. That situation was exacerbated by one of the most severe winters that we have encountered—the second in a row, unhappily. And then, concomitantly, there was the pent-up demand for the movement of coal that came upon us at the end of the extended coal strike period.

There is no way in which the railroad system—or I think any sensibly run system—can deal with these problems without having car shortages. As Mr. Lorenzen of the Burlington Northern said, "You cannot build a church, at least prudently, for Easter Sunday." We could perhaps deal with it if we could only persuade the farmers, Mr. Skubitz, to plant one-twelfth of their crop every month, but they do not seem willing to do that for some reason. It is the same sort of thing that creates a shortage of Redskin tickets on Sunday—there is no shortage at all on Tuesday, Wednesday, and Thursday.

Mr. DEMPSEY. I would like to put some additional figures into the record because they bear on the question that Mr. Madigan raised about the taxi driver who is not performing adequately. We are doing better than that, we think, by a considerable margin. I am talking now about the way in which grain is being moved. I am talking not about a short period now, but the entire first half of the year. During that period we moved a total of 631,000 cars, 1.864 million bushels, and that was 6 percent more than the comparable period last year; or for the comparable periods during the 3 previous years. If I take that same period of time, I think more significantly, what we are dealing with here is moving about 3 percent more grain a week than during the previous recordbreaking year of 1973 when we had the large Russian grain export movement.

Now, that does not mean that we do not have problems—we obviously have problems. That does not mean we do not have shortages because we do. But I did want to lay those facts on the

record to indicate what the current situation looks like, as against the peak shortage periods.

I would like to speak now briefly to some of the reasons for the shortage. Let me go first to the way in which the Interstate Commerce Commission has approached this problem of car shortages. They appear to believe that the way to deal with the problem is one way or another to have what one can only consider, it seems to me, Draconian car service orders that in effect say to the railroads, "You move those cars, or else."

Now, the supposition seems to be either that the railroads are not interested in moving the cars—and one wonders where that supposition might come from. Or that they are not nearly as competent in running the railroads as the staff of the Interstate Commerce Commission. I want to suggest to the committee, for reasons that I explained in some detail in my written statement, that neither of those suppositions can be sustained.

Let me speak, as a prime example of what I am talking about, about car service order No. 1309—that is the one that has gotten all the publicity lately; that is the one that resulted in the imposition of a \$4.4 million fine, I think it was, on the Southern Pacific, and a \$2-some million fine on ConRail and some multiple hundreds of thousands on the Santa Fe.

This is the order that Mr. O'Neal testified before the Senate would be the order the Commission would rely upon to cure, to deal with this car shortage; and order that requires—among other things—that every car that hits the yard must be moved out within 24 hours.

Now, every railroad-operating man in the country, I can say with absolute confidence, would say that this is an order that, one, cannot possibly be complied with. And two, if attempted to be complied with, would seriously increase the car shortage.

I have appended to my statement the responses—approximately 10 or 12—of chief operating officers of the largest railroads in the country, and they explain in some detail why I say what I do. I will just pick the first one at random, that happens to be a statement by Mr. J. M. Toler, the vice president of transportation of the Missouri Pacific. He begins by saying, for example, that most railroad schedules provide for the movement of cars on a once-a-day basis because cars are accumulated, and they are blocked by destination, put in a block so as to minimize intermediate handling; so that you do not have to sort them out when you hit the next terminal.

Now, obviously—and I think that should be obvious to anyone—if a train is scheduled to depart at 12 o'clock, let us say, for Chicago and cars that are destined for Chicago hit that terminal, let us say, at 10 o'clock, there is going to be no way to complete that handling in time to get those cars on that 12 o'clock train, that is just absolutely impossible and wholly unreasonable to expect that it can be done.

But worse—worse, if you do try to do it, then what you do is to eliminate that kind of blocking and preparation of that train that are designed to, and do increase the efficiency of the operation, of the utilization of those cars as they move out of that terminal. You get them out of that terminal all right as fast as you can, but what

you do, you are going to clog up the system as you go throughout the entire system down the line.

He points out that there is unpredictable fluctuation of traffic, and that that results in many cases in exceeding train capacity on given days. For example, it is not uncommon at Kansas City to receive 700 cars on one day, and in excess of 1,000 on another.

Mr. ROONEY. Excuse me, Mr. Dempsey, there is a vote now, and we have about 7 minutes. So, we will adjourn for approximately 10 minutes.

[Brief recess.]

Mr. ROONEY. We will resume the hearing.

Mr. DEMPSEY. Mr. Chairman, I was just reading a communication from Mr. Toler, the vice president of transportation of the Missouri Pacific as a typical example of our comments on the car service order No. 1309, the 24-hour rule. I will just continue with a few of his comments because they reflect my views entirely.

What he is saying here now is that in effect the ICC is alleging that the railroads should maintain the capacity—that is the locomotives, the freight cars, the labor, and the plant—in much the same manner—and I think that is a good analogy—that electrical utilities maintain reserve capacity to meet peak demands. Apparently, regulators of utilities are allowed rates of return which enable them to maintain tremendous excess capacity, but as this committee well knows, that is not the case with the regulation of the railroad industry.

I think I will pass over the rest of his comments because they are in much the same order. What we have here is an order that is ill conceived, that is impossible of compliance, and worse yet—worse yet, for the reasons that I indicated, if the railroads did make every effort to comply with this order they would be forced into inefficient yard operations which would greatly increase the difficulties that we have now.

Mr. ROONEY. I wonder if we can make that memo a part of the record.

Mr. DEMPSEY. I believe it is part of my statement right now, an appendix to my statement.

I would like to cite in conclusion on this car service order matter a statement that was made by Les Holland, who is the director of the rail division of the Iowa Department of Transportation. He testified last week before the Surface Transportation Subcommittee of the Senate Commerce, Science, and Transportation Committee—a very thoughtful analysis of the car utilization and car shortage problem which he quite correctly characterized as not really so much a car shortage problem, as an excess demand problem.

But what he said on the car service order of the Interstate Commerce Commission is this:

The fact is that car service orders combine some of the worst features of Government regulation. They are too inflexible to allow carriers and shippers to devise their own best approaches to shortage-related problems.

I would say this matter has not been before my board, so I cannot speak for the industry, but for my own part I think that the best legislative approach to this car shortage problem that I can think of at the present time is simply to eliminate the authority of the Interstate Commerce Commission to issue car service orders

because they have demonstrated their incapacity to issue any that are helpful, but rather have issued those that are hurtful.

There is a further root cause of the so-called car shortage situation which I want to address. There is, of course, the problem of subsidization of competing modes, and I will not dwell on that because the committee is well aware of it.

But while I am speaking about the matter of Interstate Commerce Commission regulations I want to underscore the importance and relevance of the remarks that Mr. Sullivan made with respect to the role of the Interstate Commerce Commission.

We are dealing here with an industry which, as an industry, is sorely pressed financially. Last year was a pretty good year for American industry in general, but for the railroad industry it was catastrophic. We had a return on net investment of 1.26 percent—and unfortunately that is a representative current year. In 1975 and 1976 the figures were 1.2 and 1.64; the 1975 and 1977 figures were even lower than the worst year of the Depression of 1932.

Now, I would like to compare these rates—I would like to compare these rates to the rates of return of the other ICC regulated carriers—I will not even deal with the outside world, just the regulated carriers.

We had a return on equity in the latest year for which data are available, 1976, of 1.8 percent. The motor carriers had a rate of return of 23.67 percent. The water carriers, 17.18 percent, and the pipeline companies 26 percent—and again, the railroads 1.8 percent.

Now, let me go to the outside world. Manufacturing corporations averaged in 1977, 15 percent; mining, 9.5 percent; and public utilities, which are regulated, after all, 12.1 percent—railroads ranked dead last in a listing of 73 leading industrial groups.

The first quarter of 1978 was worst. Not just the worst first quarter, but the worst quarter ever in the history of the railroad industry and so, for the 12 months ending on March 31 we had a rate of return of net investment of 0.6 percent, which is probably the lowest for any 12-month period in recorded railroad history.

Now, the Interstate Commerce Commission was charged in the 1976 Quad-R Act with the responsibility of doing something about this. I quote from the act, from what was originally section 205, the Congress mandated the Commission to:

Develop and maintain standards and procedures for the establishment of revenue levels which are adequate to cover total operating expenses, plus a fair, reasonable and economic profit or return, or both, on capital employed in the business.

Now, I would like to ask a rhetorical question, what has the Interstate Commerce Commission done in carrying out that mandate? I hope that when the Commission witnesses testify tomorrow they will be able to answer that question because I cannot think of an answer. I would like to review what they have done in recent months.

In the order of June 28, 1978, they were dealing with the rate increase proceeding, this most recent one, the general rate increase of 5 percent. That rate increase was not designed to improve earnings, indeed, it fell short of some \$150 million a year of covering increased costs. And yet, in June the Commission ordered a roll-back of that increase on seven major commodity groups, requiring

a refund of \$25 million, and a loss to the industry of \$50 million a year, in the face of the pathetically infirm earnings picture of this industry.

Worse yet, in doing it the Commission announced that it somehow discerned in the 4-R Act an intention to deemphasize general rate increases and to emphasize selective rate increases. Now, when they were dealing with the critically important market dominance question, they discerned an intention in the act that I am confident was not there, they gutted that provision—it is of no practical use to us at all any more.

But when they came to this question of general versus selective rate increases they found something in the act that I am confident a fair reading will show is not there at all. So, now we are supposed to rely upon selective rate increases.

I will say to this committee that, given today's inflationary climate, that every regulated industry in the United States—not just the railroads—have to rely upon general rate increases to cover their cost escalations. With a 10-percent annual increase in our material prices and labor costs it is just ridiculous to think that selected rate increases on individual commodities would somehow allow the railroads to recoup \$1.8 billion in new revenues each year. It is simply impossible. If it is that burden that the Interstate Commerce Commission is putting upon the railroads, it is one that we simply cannot carry.

Worse than that—well, I am not sure that anything can be worse than that—but let me say that in addition to that, as part of the same order, the Commission indicated that it would be very skeptical at least about selective increases on commodities that bore more than a certain cost to rate ratio, 180 percent of variable cost. I do not know where the 180-percent figure comes from, but I do know that what that amounts to is saying that for those commodities where the market might enable us to raise some money, they are going to look at those selective rate increases with great skepticism; and that was the reason for rolling back these selected seven commodities.

On the other hand, they are not going to let us put into effect, or at least they are going to be very skeptical about general rate increases. I say to the committee that in those circumstances they leave the railroad industry with no place to look in order to raise our revenues to anything like a reasonable level. The attitude that the Commission has indicated in this area, I think, is quite well demonstrated, again, in the most recent general rate increase proceeding—

Ms. MIKULSKI. Excuse me, Mr. Dempsey, with all due respect to you, sir, it is 4:30, and I would like to move on to some questions. Do you think it would be possible for you to consolidate your remarks, rather than perhaps giving us the whole history of horrors of the ICC?

Mr. DEMPSEY. If I have managed to convey the general impression that we are dissatisfied with the work of the Interstate Commerce Commission, I would be pleased.

Ms. MIKULSKI. I picked it up.

Mr. DEMPSEY. I wanted to just be absolutely confident about that.

In those circumstances I am pleased to conclude my remarks. We have this matter—and I put this question to the chairman—we have the question of ACI that has been raised, automatic car identification. That will be discussed, as I understand it, by some witnesses tomorrow. We have a statement which we have prepared, by Dr. Harris, who is fairly familiar with this issue, which I would seek be introduced in the record so that the committee would have the benefit of those views.

[Testimony resumes on p. 71.]

[Mr. Dempsey's prepared statement and attachments follow:]

STATEMENT OF WILLIAM H. DEMPSEY, PRESIDENT, ASSOCIATION OF AMERICAN RAILROADS

My name is William H. Dempsey. I am President of the Association of American Railroads, with headquarters in Washington, D.C. The railroads which are members of the Association operate 92 percent of the line-haul mileage, employ 94 percent of all the workers, and produce 97 percent of the freight revenues of all railroads in the United States.

Let me begin by pointing out that improving the utilization of railroad freight cars is not a simple problem. The performance of the freight car fleet is a compounding of railroad and shipper management decisions on providing, distributing, loading and unloading, moving and pricing the use of that fleet, to say nothing of the externally-imposed regulatory constraints on car use and car pricing or of the extensive constraints imposed upon the operation of our railroads by the contractual arrangements between railroad companies and the labor organizations which represent their employees. All of these factors interact, moreover, within a technological and institutional framework of unusual complexity.

To say that the problem of freight car utilization is complex is not to say that it cannot be effectively attacked if enough ingenuity and resources are devoted to the job. The railroad industry has marshalled such resources in its Freight Car Utilization Research—Demonstration Program, a program in its third year of operation and one which involves railroads, shippers, railroad supply companies, and government in a long-term, multifaceted effort designed to wrestle the car utilization problem to the ground.

I have appended a summary description of that program to my formal statement, so I will not take the time to describe it in detail here. What I would like to do is to convey some idea of the complexity and difficulty of the freight car utilization improvement problem, so that our efforts can be seen in their proper perspective. To that end, let me say a word about each of the major factors which affect the utilization of railroad freight cars.

Providing the Car Fleet. Railroad companies, shippers, and freight car owning and leasing firms all contribute cars to the North American freight car fleet. Decisions regarding the financing and acquisition of new cars, the maintenance and rebuilding of existing cars, and the retirement of worn-out or economically obsolete cars all combine to determine the size and composition of the national fleet.

Decisions regarding the design of cars determine the degree to which cars are tailor-made to meet the needs of specific shippers, specific commodities, or specific shipping territories and, conversely, the extent to which cars are suitable for so-called general service wherein they have greater flexibility in their use. Decisions on car design also affect repair requirements and useful service life. Railroad and shipper policies and practices on cleaning and reconditioning of cars, moreover, influence the type of traffic which cars are capable of handling, as well as the cost and time associated with loading and unloading the cars while in revenue service.

This interrelated, myriad set of decisions all affect the way in which the available supplies of cars are used and, thus, their utilization.

Distributing Empty Cars. Unfortunately the pattern of intercity freight movements are not such that cars can typically be reloaded just where they have been unloaded. This requires that railroads individually and collectively distribute cars when made empty in a fashion which will not only satisfy the demands for reloading where and when those demands occur, but also minimize the cost in time and money associated with empty car movement.

The procedures which have been developed to perform this distribution job vary somewhat from one railroad to the next, but in all cases they are extremely complex, slowly-learned and difficult and expensive to change. On all railroads of

any size, moreover, these procedures are integral with and supported by computerized information systems, systems which are in themselves of mind-boggling complexity and sophistication. These procedures are also tailored to the particular management organization in place within each company and can be modified only as that organization itself undergoes modification.

The job of distributing empty cars is made more difficult, too, by the extreme variation over time in the demand for most rail service. That variation in itself makes the job of forecasting the requirement for cars difficult. At the level of detail required for field transportation supervision, this forecasting job is virtually impossible. All of which is not to say that better distribution procedures cannot be devised. The industry is hard at work on that job and has already made substantial progress in devising improved approaches to it.

Loading and Unloading Freight Cars. The time which freight cars spend being loaded and unloaded is essentially under the control of shippers and consignees. The decisions made by shippers in this regard affect the utilization of freight cars because of the time cars are detained for this purpose, the extra car handling sometimes required to complete loading and unloading, and the damage which may be done to cars by improper loading and unloading practices.

The time which shippers and consignees detain cars is affected by the five-day work week in industry, by shipper and consignee priorities in handling trucks in preference to rail cars, by the incentives and disincentives implicit in the demurrage rules and charges mandated by the Interstate Commerce Commission, by the use of the cars for temporary storage of shipments, by over-ordering of cars by shippers, by railroad placement of cars which are unsatisfactory as to type or condition, and by the unreliable placement of empty cars for loading or loaded cars for unloading. Shippers and consignees may also cause extra detention time for cars by requiring extra switching to complete loading or unloading or by requiring that loaded cars be detained at origin to await proper movement instructions or billing.

Finally, poor loading and unloading practices can damage car doors, linings, floors, or load restraining devices or, in the case of unloading, leave cars dirty so that they must be switched to a cleaning track and cleaned before they can be made ready for another load. All of these practices cause lost car time for cleaning or repairing the cars; and they can result in a car being downgraded to handle only lesser quality freight, thus restricting the flexibility of its future use.

Moving Cars. Freight cars spend the largest part of their time being moved from one place to another or awaiting movement at a shippers siding or in a switching yard. The most important opportunities for reducing this time lie in the more expeditious handling of cars through terminals or in rescheduling movements in such a way as to reduce the number of terminals through which cars must be handled.

Any actions taken to reduce the time which cars spend in terminals, however, must be weighed against the cost in personnel or other resources (e.g. switch engines) required to expedite the movement of a car over what would otherwise be its normal handling schedule. These other costs are typically large enough to outweigh the car-hire costs associated with expedited movement. They can similarly outweigh the value of the improved service quality which might otherwise result from expediting load car movements. Assessing these cost and service quality trade-off is an enormously complicated job which depends, among other thing, upon the use of sophisticated management information systems analysis capabilities.

It should be also noted that the detailed and difficult-to-change contractual obligations which the railroad companies have with their employee unions severely constrain the alternatives available for restructuring operations so as to minimize the amount of terminal car handling. Perhaps the most obvious example of this can be found in the contractual agreements on the size of train and switching crews. The cost associated with the four-man crews typical of railroad operations today are such as to make relatively long trains optimal from a cost and service quality standpoint, the high cost of new freight equipment notwithstanding. Reducing the size of these crews, where that is operationally feasible, would permit restructuring many railroad operations so as to run significantly shorter trains right past the intermediate switching yards through which they must now be handled, thus expediting overall car movement and improving car utilization.

Pricing Rail Service. Rail rates and tariff provisions also have a major impact on the way in which cars are used. The extreme variability in demand for many types of cars is a crucial determinant of the utilization achievable with the car fleet as a whole. The only effective way to smooth this demand to what the natural flow of commerce can permit is through demand-responsive rates and tariff provisions designed to produce just that result. The Congress recognized this problem explicitly

in Title II of the Quad R Act, but the railroad industry has so far been discouraged from making extensive use of this sort of pricing technique by the detailed and uncertain procedures prescribed by the Interstate Commerce Commission in its interpretation of the statute.

The use of reduced "back-haul rates" to put loads into what would otherwise be empty equipment returning to its previous loaded origin can also improve the effective utilization of freight cars. Efforts to implement such pricing strategies are now underway within the industry, but again there is a fear that restrictive interpretations by the ICC may frustrate the ability of carriers to pursue back-haul opportunities otherwise available to them. The prospect of long, drawn-out proceedings before the ICC with subsequent appeals to the federal courts can discourage even the most determined efforts at such pricing innovations.

Other pricing and tariff practices, such as, provisions for diversion or inspection enroute or for through-billing over transit points, also take their toll on car utilization. Again, the ICC has posed substantial obstacles to railroad efforts to clean up these sorts of car utilization problems. They have, for example, insisted that entire rate structures be renegotiated before they will allow carriers to cancel car-delaying privileges in the present tariffs, the occasional use by shippers of such privileges to the contrary notwithstanding.

Intra-Company Freight Car Management. Providing, maintaining, distributing, moving, and pricing the use of freight cars are all specialized and complicated activities in their own right. Each of these activities has a major impact on the overall utilization of cars and each interacts in complicated ways with all of the others.

These activities are further complicated by the physical and organizational geography of each individual company. Coordinating the efforts of all involved is thus a monumental management job. As a freight cars have become more expensive and their utilization more and more important, moreover, railroad companies are necessarily restructuring the ways in which they manage this part of their business.

The development of more powerful and comprehensive management information systems is an integral part of this restructuring process within each company. These information systems rely increasingly upon sophisticated, third-generation computers and far flung data communication networks. These systems are much more than mere data collection systems, because they involve increasingly complicated data analysis and user-interactive data presentation and display capabilities. The development of these systems goes back over two decades and has required investments of ten and hundreds of millions of dollars in design and programming. They are difficult to build, difficult to modify, and so essential to the day-to-day operations of a modern railroad that their integrity cannot be put at risk for even a few hours, let alone days or months.

Just as these information systems are essential to the present-day management of the freight car fleet, so are they also essential to our ongoing efforts to find better ways to manage that fleet. Through modifying and amplifying these systems, each company is sharpening its understanding of where the opportunities lie for improved car utilization.

Inter-Company Freight Car Management. Overlying the complex and difficult job each operating company has in managing the freight cars on its own line is the additionally complex job of managing the use of freight cars throughout the nation as a whole. Because cars move freely from the lines of one railroad to the next, coordination and cooperation among all of the railroads is an essential part of the freight car utilization problem. This larger management job, of course, is preeminently the responsibility of the Association of American Railroads functioning through a complex array of standing technical committees of railroad company people.

The Mechanical Division of the AAR establishes the technical specifications for freight cars and their maintenance, major determinants of the way in which freight cars can be used and the degree of car utilization which can be realized. The Operating-Transportation Division of the AAR further determines the operational ground rules for the industry-wide interchange and use of cars and, through our Car Service Division, enforces these operational rules to ensure the best use of cars under the always-changing circumstances of national car supply and demand.

Again, the national-level car management job depends importantly on the use of computer-assisted information systems, the most important of which is the TRAIN II System developed and operated by the AAR itself. Again, the rules, procedures, and information systems support necessary to do this part of the car management job have evolved over countless years as a result of the detailed work of tens of thousands of railroad industry people. The further improvement in car utilization

that can derive from the enhancement of these industry-level efforts is complicated in the extreme.

Regrettably, these efforts have been made increasingly difficult by the ad hoc intervention of the Interstate Commerce Commission in the management and movement of freight cars throughout the national network. ICC actions in the car management area have most recently manifested themselves in the ill-advised enforcement of their ill-conceived 24-hour rule for car movement, a rule which is patently inconsistent with the inherent structure of railroad operations, to say nothing of the causes for recent freight car shortages.

Now Chairman O'Neal has said that the Commission is considering such further restrictions on railroad car fleet management as the complete discontinuance of unit grain train operations, the suspension of all shipper-assignments of specialized equipment, and even the suspension of AAR car service directives requiring the empty movement of freight cars to correct for directional imbalances in loading that cannot be dealt with in any other way. Any such draconian measures would predictably have a chaotic impact on the utilization of the national freight car fleet. That they could even be "considered" is all the evidence the railroad industry would ever need to be convinced that the ICC can no longer play any constructive role in the freight car management process.

For my part, I can only agree with Les Holland, Director of the Rail Division of the Iowa Department of Transportation, who said in his recent testimony before the Surface Transportation Subcommittee of the Senate Commerce, Science and Transportation Committee, "The fact is that car service orders combine some of the worst features of government regulation. Car service orders are too inflexible to allow carriers and shippers to devise their own best approaches to shortage-related problems . . ."

The Car Utilization Problem Summarized. If by this time I have left you with the impression that the problem of improving freight car utilization is an enormously complex task, then you have gotten my message. Each of these pieces of that problem are complicated in themselves. Since freight car utilization is a problem where everything is connected to everything else, moreover, the collective complexity of the problem defies any simple description.

I am compelled to urge that the railroad industry has all of the incentive to improve freight car utilization it will ever need. The cost of new freight cars has escalated dramatically in recent years (60 percent over just the two-year period, 1974 and 1975). The interest cost on the money required to finance new freight car purchases has similarly escalated dramatically from what it was not many years ago, while railroad industry financial fortunes have at the same time declined to the disastrous levels with which this Committee is all too familiar. Better freight car utilization is thus not a matter of casual interest to our industry. It is a matter of life and death.

We are doing everything we know how to deal with the problem. Again, I would refer you to the detailed description of our Freight Car Utilization Research—Demonstration Program which I mentioned at the outset of this testimony. I could also detail countless other individual and collective efforts being made by the industry to deal with this most important problem.

Finally, let me emphasize that the two most important single obstacles to major improvements in car utilization are the difficulties which our industry has in modifying the modernizing its labor contracts and the frustrating problems posed by outmoded ICC rate regulation and outlandish ICC intervention in freight car management matters. Both of these are problems known to this Committee, but both are ones which the industry has great difficulty in overcoming with the limited institutional resources at its direct command.

(With specific regard to the role of the ICC in car service matters, I am also appending to my formal statement recent advice from a number of our companies regarding the essential unworkability of the recently-enforced ICC 24-hour movement rule. A quick review of this material will help you to understand my critical comments about the performance of the Interstate Commerce Commission.)

The Current Freight Car Shortage. It cannot be denied that we have had serious freight car shortage problems, in recent months, problems that have yet to be entirely cured. Let me review the important circumstances which have conspired to produce this problem and then explain the fundamental reasons that such a problem can develop, has developed often in the past, and will develop again unless those fundamental reasons are confronted.

The sudden and unforeseeable increase in the world price of grain a few months ago has produced a demand for the transportation of grain exceeding anything the rail system could reasonably be expected to handle on short notice. These develop-

ments were aggravated by the severe winter weather which tied up rail operations throughout much of the country in late 1977 and early 1978. The extended coal strike and the abnormal demand for coal movement which followed the settlement of that strike further compounded railroad operating and car supply problems, as you well know.

The railroad industry has now responded by moving both coal and grain in all-time record quantities and will continue that performance until these surges in demand have worked themselves off. In all of this, however, the industry has been hampered by the chronically depressed earnings of recent years. The financial facts of life have necessarily resulted in less than satisfactory freight car and locomotive repair programs, to say nothing of inadequate capital replacement programs, all of which has left the industry with less resources than it would otherwise have had to meet such unusual demand.

It is not hard to find the causes of this and similar "shortage" situations experienced by the industry from time to time over recent years. They derive simply and solely from the economic regulation of the industry by the Interstate Commerce Commission. On the one hand, the ICC has frustrated and continues to frustrate the railroad industry in its attempts to generate additional revenues on that traffic which is capable of paying higher rates. That has assured the further financial debilitation of most of our companies with the inadequate maintenance and capital replacement programs which that debilitation has long since produced.

On the other hand, the fine-grained web of ICC rate regulation has not merely discouraged, but effectively prevented the railroad companies from making short-term upward adjustments in their rates to damp down otherwise unmanageable demands on finite amounts of rail transportation capacity. While our truck and barge competitors are left free to raise their rates on literally a moment's notice to levels which will equate transportation demand with their transportation capacity, the railroads are still required to hold their rates at off-peak levels and then to suffer the public disaffection associated with the inevitable shortfall between maximum railroad capacity and unlimited, short-term transportation demands.

While the grain industry, the coal industry, the truckers, and the barge lines are left free to generate whatever profit they can from an increase in the price of the commodities they produce or move, the railroads are told by the ICC that they cannot increase their rates and profit margins above some arbitrary, inadequate levels lest they exploit their "monopoly power" over the rest of the economy. It is a strange "monopoly power" that has brought the U.S. railroad industry to the very brink of financial disaster. Apparently, the ICC has found some new definition of that term unfamiliar to the rest of the civilized world.

Indeed, the urging of the ICC that the railroads must not be allowed to exercise their "monopoly power" in these regularly recurring peak-demand situations does nothing but ensure that the industry will be smothered again and again by the clouds of public opprobrium which inevitably attend the physical and economic impossibility of responding to demands which are in no way restrained by rational pricing actions. So long as the ICC continues to work its misguided regulatory ways on railroad rates, there will be car "shortages" to distress both the railroad industry and the Congress.

APPENDIX TO THE TESTIMONY OF W. H. DEMPSEY

THE FREIGHT CAR UTILIZATION RESEARCH/DEMONSTRATION PROGRAM

Any effort to develop solutions to a diffuse problem must necessarily address the components—the definable decision-making areas which impact car use. To this end, a multi-year program of research, to examine a dozen different aspects of the freight car utilization problem, was initiated in 1974. It is a cooperative effort between the railroad industry, its customers, the supply industry, and the government. Its objective is to improve the productivity of the railroad general service and assigned freight car fleets by:

Identifying practices that contribute to idle standing time, unnecessary movement, slow transit, or below capacity loading of freight cars.

Setting up experiments to test recommended changes.

Informing the rail transportation community of its findings and promoting the adoption of new or improved practices.

Phase I of the Program extended from January 1975 through June 1977, with some final reports being completed later in 1977. Its work was managed under six task forces of manpower contributed by railroads, shippers, suppliers, and govern-

ment, supported by a full-time program staff, and numerous consultants. Annual budgets of about one million dollars per year do not include contributed manpower.

Phase II of the Program will run for two years. It is proceeding in a manner similar to Phase I, but with a substantial infusion of new participants. To date, well over a hundred persons have served the Program. The accomplishments of the Phase I Projects and the direction which has been established by the Phase II Task Forces are described below.

PHASE I TASK FORCE 3

MEASURING THE CAR CYCLE

The search for solutions requires that a system be available with which to both quantify the problem itself and measure the impact of tested solutions. This need for accurate and complete car cycle data was translated into an objective for Task Force 3 of Phase I which was assigned the job of designing and conducting statistical sampling and analysis procedures to develop representative car cycle profiles for selected car type-commodity combinations.

Their general approach was to select at random from the UMLER file a statistically representative fleet of cars, and to collect waybill and movement data for these cars on a continuous basis. To this end, 8,500 cars were chosen, and the monitoring of their movements began in April 1976 through TRAIN II reporting to AAR, supplemented by CLM reporting than existing on 23 railroad computer systems.

Movement events reported from all these sources on each car in the sample fleet are merged monthly into one computer file, the duplicate reporting is eliminated, and the data are edited for mis-sequenced, missing and erroneous reportings. The edited data base contains empty or loaded status, and the date, time, and location of placements, releases, pulls, departures, and arrivals, plus waybill information (but not miles). The data base for analysis is then prepared by dividing the continuous movement records into trips, and summarizing each trip according to a consistently defined set of cycle components. Trips are delimited by release loaded events at loading points.

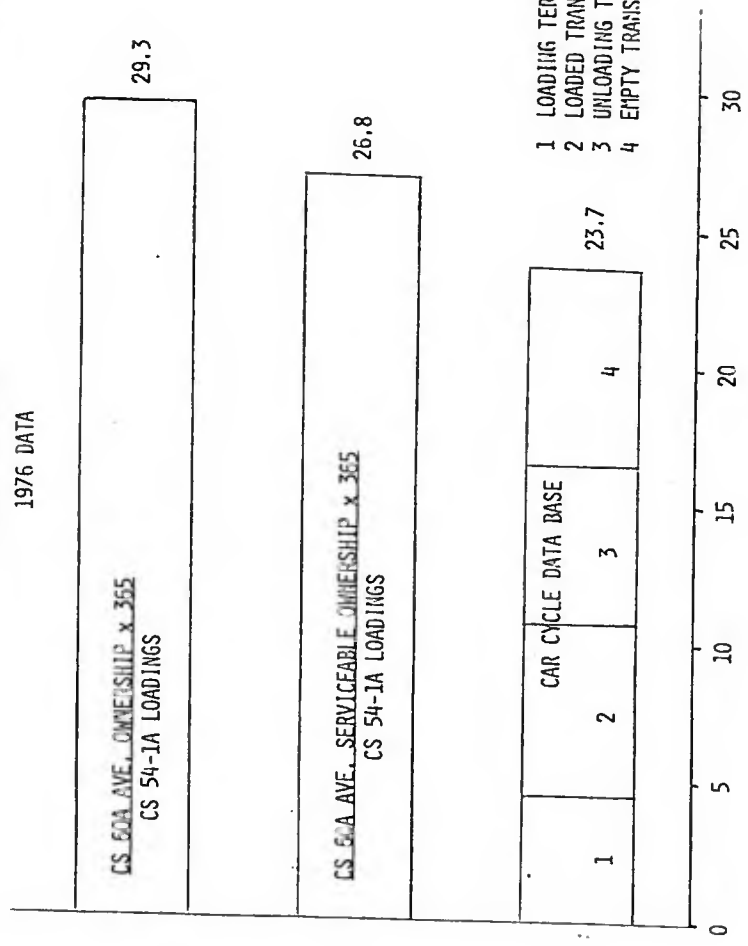
Two years of data has been collected on the sample fleet. Very substantial consulting support for the design and construction of the Trip Summary data base has been provided by SRI International, and they will also be responsible for the cycle analysis.

As part of the system's development, SRI has exercised the data base and related software to produce certain preliminary results. The purpose of these analyses was not to reach definitive conclusions about car utilization, but rather to validate the data base and provide examples of the kind of output possible. The results are extremely interesting and quantify for the first time several relationships that heretofore have eluded rigorous analysis.

For example, in recent years, aggregate ownership and carloading figures have been used by rail industry critics to demonstrate to Congress and others the abysmally poor state of car utilization. While no responsible person in the industry would argue that utilization is adequate, nevertheless there has been a suspicion that railroad car movement performance is not quite so bad as the gross numbers suggest. An analysis of 50-foot plain box car cycles using the Car Cycle Analysis System (CCAS) confirms this. Graph 1 shows the relative car cycles derived from various measures previously available to the AAR and now available from the CCAS.

GRAPH 1

50 FOOT PLAIN BOX
1976 DATA



The cycle times presently derived for plain box cars are estimated to be accurate to within 0.5 days with a confidence level of 95 percent. The reason why the estimated cycle times are less than those derived from other sources has not been firmly documented, but almost without question includes the impact of older, marginally useful cars and variations in demand that cause temporary surpluses. The test data disregards these "surplus" car days because it is limited to a six-month observation period, and any car which did not experience at least one round trip within this six-month period would not be included. Whether such "surplus" car days should be measured depends on the nature of the analysis, e.g., financial, operational, etc. Further, as Graph 1 illustrates, the Car Cycle Analysis System enables the disaggregation of cycle time into component parts, currently loading terminals, loaded transit, unloading terminal, and empty transit. A further disaggregation, isolating shipper and consignee time as well as an estimate of intermediate terminal time, will soon be available.

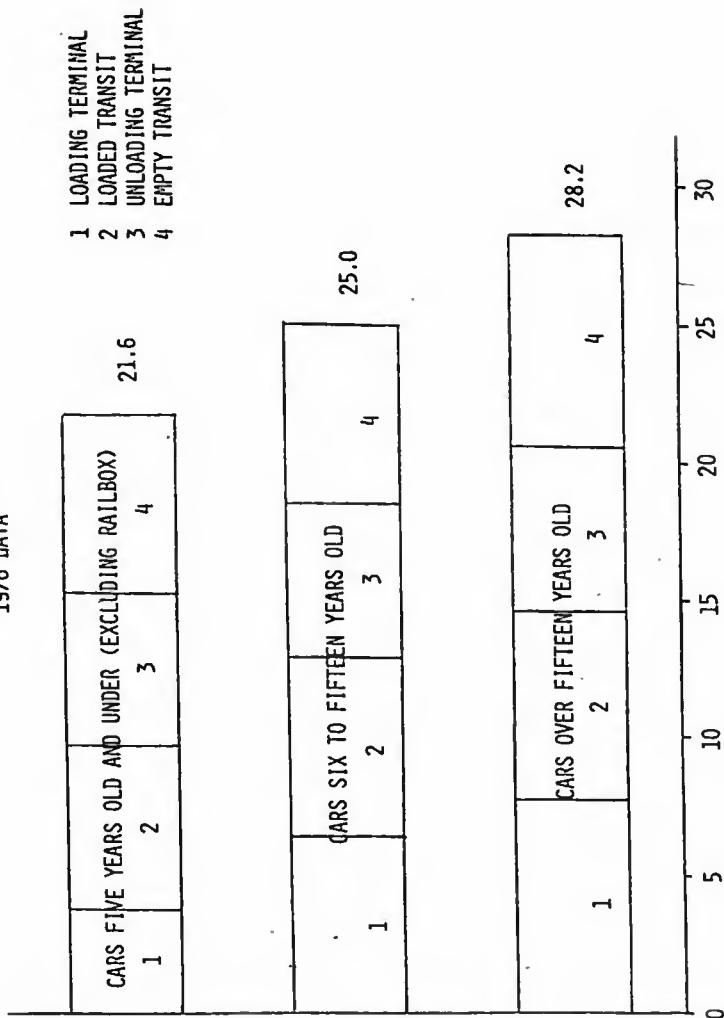
A second analysis of 50-foot plain box cars differentiates cycle time with age, based on the three age groups included in the sample (0-5 years, 6-15 years, over 15 years). See Graph 2. As would be expected, a significant lengthening of cycle time occurs with age, due primarily to increases in empty transit time and loading terminal. (Loading terminal time includes empty time preceding placements.) This trend may be of considerable significance in analyzing the economics of these cars, and is information not readily available elsewhere.

Due to recent interest in the performance of RAILBOX cars, an analysis was made comparing RAILBOX cycles to all railroad-owned 50-foot plain box cars, and railroad-owned 50-foot box cars in the 0-5 year age group (Graph 3). This analysis confirmed that while RAILBOX cars were substantially better utilized than all railroad-owned 50-foot box cars, the margin was substantially smaller when compared to railroad-owned cars of equivalent age. It is also apparent from Graph 3 that the major reason for RAILBOX's superiority is in reduced empty transit time.

GRAPH 2

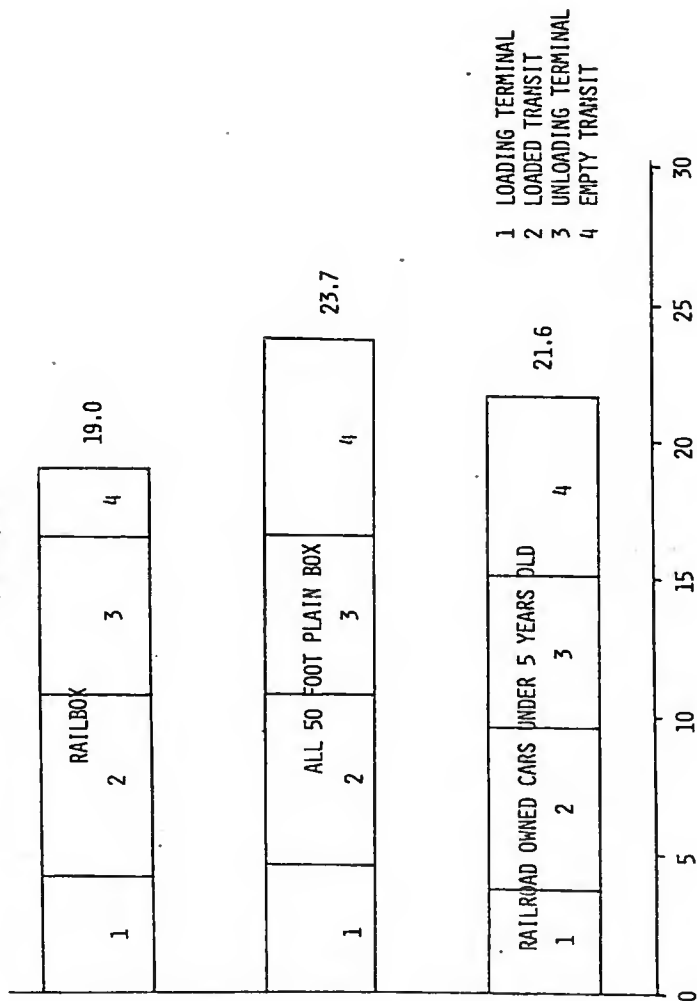
50 FOOT PLAIN BOX

1976 DATA



GRAPH 3

50 FOOT PLAIN BOX
1976 DATA



The majority of the preliminary analysis was based on 50-foot plain box cars, since that portion of the data had been "de-bugged" more fully than the others. However, an analysis by major commodity group of the plain gondolas under 61 feet produced the following result:

PLAIN GONDOLAS.—1976 Data

| | <i>Cycle time (days)</i> |
|----------------------------|--------------------------|
| Coal | 5.4 |
| Primary metals | 21.9 |
| Nonmetallic minerals | 23.5 |
| Wood products | 16.8 |
| Scrap | 22.5 |

The above highlights the inclusion within the plain gons of a group of solid bottom coal cars obviously in fast turnaround unit train service. It also demonstrates the ability of the data base to identify groups of cars with unusual performance characteristics and include or exclude them, depending on the purpose of the user's analysis.

When completed, the system will have an inquiry capability that will enable the industry to selectively examine any detailed part of the data base. Furthermore, if car cycle information were needed about any particular group of cars or commodities which the ongoing sample fleet would be inadequate for, a temporary enlargement of the sample could be made, or even a designated fleet monitored and analyzed.

So, the Car Cycle Analysis System provides the railroad industry with a capability to measure interline freight car utilization. The System was developed on the premise that "you can't manage what you can't measure", and for the first time it is possible to analyze in considerable detail and on an on-going basis the movements of a representative sample of the national fleet.

The Car Cycle Analysis System has been developed as a tool for others to apply. Potential users include the Committee On Car Service, the Car Service Division, various task forces of the Freight Car Utilization Program, various staff groups with the AAR, and individual railroads. Apart from "operational" car management needs, the system will have a value in controlling, pricing, and selling interline services, in evaluating interline car pool arrangements, and as a data base for operations and cost research concerning freight cars. The potential applications are many, with the only constraint being a careful review of proposed analyses to ensure that competitive information is not misused.

OTHER ACCOMPLISHMENTS—PHASE I

TASK

I. Completed, published and publicized the industry's first *Manual of Car Utilization Practices and Procedures*. This was supplemented by a seminar session November 23, 1976, in Chicago on Freight Car Utilization, the proceedings of which were printed and distributed as a supplement to the Manual.

II. Completed and published a manual on *Freight Car Utilization: Definition, Evaluation, and Control*. This recognizes both the physical and economic aspects of freight car use, and clarifies the interaction and control of these aspects of car utilization.

IV. Completed a "Recommended Program of Railroad Management Information Research Development and Experimentation." As a part of this research:

Developed an Industrywide Freight Car Management and Control Concept as part of an effort to identify areas of needed research.

Completed an evaluation of the "gaps" of data being reported to TRAIN II.

Completed the study of the feasibility of a Centralized Car Location Message concept, results of which were given to the Data Systems Division and the Traffic Committee on Data Services for their consideration.

Initiated an interline waybill data exchange experiment, now being progressed by the Data Systems Division.

Completed the functional specification of a Railroad Operations Modular Processing System (ROMPS), and initiated the actual start of the program development and demonstration project, involving 12 Short Line Railroads. The objective of this is to enhance the reporting to TRAIN II and loading and unloading information available to the Car Service Division when cars are on short line railroads.

Kept abreast of the developments of the Freight Car Scheduling concept on the Missouri Pacific Railroad.

V. Completed a series of experiments and studies of the effect of industrywide rules and practices on freight car utilization:

Participated in the Clearinghouse Experiment, designed to overcome the adverse impact upon utilization of car service rules 1 and 2. Assumed responsibility for the evaluation of the results. Suggested per diem reclaim procedure to be implemented in times of car surplus, and developed a program to minimize empty car mileage when weekly equalization payoffs are made (through use of TRAIN II data by the Car Service Division). Report was published of the evaluation of the first year of operation. An additional report is now under preparation concerning the results of the expanded Clearinghouse (10 railroads).

Participated in the study of Incremental Car Hire (see Task VI).

Completed a study of car inspection (as relates to load suitability) policies and their economics.

A major contributor to the Boxcar Demand Study, to establish a policy with respect to RAILBOX by the industry.

Completed a study through data from TRAIN II of the cycle characteristics of boxcars of similar physical characteristics but subject to different rules of operation (such as RAILBOX, cars subject to Car Service Rules 1 and 2, cars exempt from these rules, etc.) to quantify impact of the various rules on utilization.

VI. As a part of the charge to evaluate the impact of service reliability improvement upon freight car utilization:

Completed a study documenting the impact of a change from daily to hourly car hire, recommending adoption of ICH. Industry did accept this recommendation, and petition is now with the ICC requesting authorization.

Completed many experiments involving assigned fleets, terminal performance, empty car distribution, and other areas, the results of which are reported in a comprehensive report. Methodologies were developed and documented:

- Hourly car hire evaluation
- Assigned fleet model
- Empty car inventory model
- Car fleet economics model

PHASE II RESEARCH PLAN

The Phase II Task Forces have defined detailed work plans which are in various stages of completion:

TASK 1—STRUCTURING ORGANIZATIONAL CONTROL MECHANISMS TO IMPROVE CAR UTILIZATION

Most railroad organizations do not provide for control and accountability for profit and car utilization at levels below the Chief Executive Officer. Responsibility for the production process is split functionally and geographically; it is controlled as a cost center, and the systemic character of the process and this type of organization make it impossible to assign responsibility of service quality to anyone. Responsibility for the traffic functions is also split functionally; pricing, sales, solicitation, service assignment are all controlled separately, and decisions are based heavily on the expected revenue implications.

The need for integration of this decision-making process has been approached organizationally by several railroads and as a first step, the committee requested that a comparative review of the activities relevant to equipment asset management on half a dozen carriers be completed. The review revealed that while progress has been made, especially with respect to the integration of the acquisition and rehabilitation decisions through some type of interdepartmental freight car committee, substitute organizational changes are just now beginning. The Task Force is therefore supporting projects in two areas:

1. Research to articulate more precisely the interrelated nature of asset management decisions and their importance to freight car utilization.

a. Freight car utilization is the resultant of what is decided (consciously or unconsciously) about certain control variables, such as car acquisitions, car distribution and assignments to traffic, pricing, dock-to-dock service quality, etc. Identifying each of these, and specifying how they impact car utilization, both individually and interactively, is necessary to establishing the framework of functional relationships that connect decisions with their ultimate utilization consequences.

b. Once this framework is established, existing (largely traditional) management organizational structures and assignments of decision-making responsibilities can be critiqued in terms of where and how the functional relationships lack coordination or are even uncontrolled. It can also be used to appraise new organizational ideas or proposals for their probable improvement potential.

c. Existing weaknesses should suggest alternate organizational structures and/or additional control mechanisms that will provide more complete, integrated decision-making.

2. Specification of information required to support integrated car management decisions. This includes consideration of conceptual characteristics, level of detail, timeliness, and reporting format. Obstacles to the development of this information must be identified early on, such as the absence or inadequacy of cost research, automated analytical tools, movement reporting data base, etc. It is not yet clear how much this information project can progress independently of the preceding one.

TASK 2—UTILIZATION AND SERVICE RELIABILITY IMPACTS OF RAILROAD OPERATING PLANS

Five major projects are being undertaken, each of which examines a different aspect of the need to integrate operating decisions more effectively at various levels of the railroads.

1. Case study to develop, implement, and evaluate an operating-service plan. The Boston and Maine Corporation is the host railroad and the MIT Center for Transportation Studies is working with an interdepartmental team of Boston and Maine officials on the project.

2. Study of the terminal budgeting and control process, followed by testing of an MIT-developed control system at a Southern Railway terminal.

3. Development of a dynamic class task assignment model by Southern Pacific Transportation Company and SRI International.

4. Development of hump sequencing model by Family Lines and Haskins & Sells.

5. Study of the relationships between car utilization and locomotive acquisition and use.

TASK 3—UTILIZATION IMPACTS OF CUSTOMER-RAILROAD RELATIONSHIPS

The Task Force has developed a research program which will include documentation of recent experiences in making changes in relevant practices and procedures, and case studies in those subject areas in which there have been no documentable efforts in the past. Projects will address four areas:

1. Alternatives in furnishing assigned cars: assigned cars vs free-running national vs geographic pools, etc.

2. Special rate structures: multiple car shipment rates, directional back-haul rates, etc.

3. Car rental in lieu of free time plus demurrage.

4. Shipper loading/unloading practices.

TASK 4—INDUSTRYWIDE FREIGHT CAR MANAGEMENT

The Task Force has defined a set of projects, each of which will contribute to more effective interline car management by the carriers:

1. Make further evaluation of the Clearinghouse Experiment.

2. Evaluate the conflict between good car utilization and car owner's equity.

3. Develop an interline car grading system.

4. A car hire relief system for times of car surplus has been developed.

5. Demonstrate an improved utilization technique for the multilevel car fleet.

6. Monitor a localized Clearinghouse Experiment for Terminal Carriers with the Task Force on Railroad Transportation.

TASK 5—RAILROAD FREIGHT CAR DISTRIBUTION

Task 5 was not an outgrowth of any specific activities of Phase 1; hence, initial resources were invested in an effort to determine more precisely the industry's common needs in the car distribution area, and to accomplish this, a questionnaire has been sent to eighteen of the major Class 1 roads. The Task Force is also supporting several specific projects:

1. Evaluation of car inventory policies at surplus and deficit areas. Experiments in this area will follow if the data supports the hypothesis that empty car inventories are maintained in terminals.

Development of supply forecasting models on the Missouri Pacific and the Norfolk and Western.

Development of a tactical fleet size forecasting model using TRAIN II data on the Southern Pacific.

TASK 6—UTILIZATION IMPACT OF FREIGHT CAR DESIGN AND SERVICEABILITY

The Task Force has developed a series of projects which will serve to quantify the problem and identify the most promising solutions:

1. Examine available data bases and determine how much car time is attributable to mechanical failure; identify those types of failures with greatest impact.
2. Study the economic trade-offs between improved utilization and various design changes and maintenance policies.
3. Identify factors other than design which could decrease lost car time for serviceability reasons, such as car cleaning and inspection, coordinating FRA inspections with routine repairs, etc.

APPENDIX TO THE TESTIMONY OF W. H. DEMPSEY

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|---|---|
| TLX 834510 PC HQ PHA, H.E. Ring. | 59CSD |
| TLX 253266 SANTAFE CGO, D.P. Valentine. | TLX 484491 UPRAILCO OMA, J. Bowen. |
| TLX 340-893 SOU PAC SFO, J.J. Willis. | TLX 253352 MILWRR CGO. F.B. Cedarholm. |
| TLX 56214 SCL RR JAX, C.F. Kelly | TLX 253234 CNWGENLOFC CGO, T.W. Harvey. |
| | TLX |
| | TLX 87887 BANDOTELG BAL, A.W. McElvany. |
| TLX 204103 LNRR LNX LVL, A.C. Jones, Jr. | TLX 829425 N&W RY ROA, L.A. Atkinson, Jr. |
| TLX 447105 MOPAC RR STL, J.M. Toler. | TLX 436431 RISCO SPG, T.M. Galloway. |
| TLX 542957 SOU RWY BB ATLA, W.A. Wharton. | TLX 254445 ICRR EQCTL CGO C.W. Damiano. |
| TLX 297025 BURLNOR STP, J.J. Boettner. | TLX 253555 CRIYPRR CGO, H.W. Metz. |

For possible use at a forthcoming informal meeting between AAR officials and ICC Chairman O'Neal, to discuss what we think is the total unreasonableness of ICC service order No. 1309. Will each of you please furnish some information with respect to your experience in efforts to observe the strict provisions of the order. Specifics on the 24 hour forwarding rule will be most helpful together with what time frame you feel would be reasonable and workable. Brief summary by telex with letter of specifics later this week will be appreciated. Joint 16 selected roads.

H. GORDON RANDALL

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CC: J E Martin, J. L. Collier, Jr.
AAR CSD WSH D
Administrative Message No. 175 From H420500
H. G. Randall, A.A.R., Washington, D.C.

Reference your wire July 7 in connection with ICC Service Order 1309. The following are some of the practicalities which make compliance with ICC 1309 virtually impossible:

1. Most railroad schedules provide for the movement of cars on once a day basis, since cars are accumulated and blocked by destination to minimize intermediate handling and to provide for overall better transit to destination. Obviously, that traffic which arrives near train departure time cannot be processed to move on that day's train.

2. Fluctuation of the available traffic particularly from connecting lines results in many cases in exceeding train capacity on given days.

3. Motive power requirements cannot always be predicted with accuracy. The same applies for train crews. It is not uncommon for example at Kansas City to receive 700 cars one day and in excess of a thousand the next. Furthermore, the mix of traffic varies: in other words, the volume of switch versus road haul and the volume by destination varies considerably.

4. The impact of the hours of service law affecting various railroad crafts particularly the 12 hour law for train and enginemen has had a devastating effect on the railroads ability to move cars expeditiously. Interpretation placed on this law by FRA causes excessive tie-up of trains on line and deadheading of crews thus wasting labor and locomotive and freight car resources.

5. In the case of empty cars, the art of demand forecasting is far from an exact science. Projections of demand are made based on many factors and it is not unusual for shipper orders to fluctuate resulting in more than adequate supply on certain days with the shortage at the same point on subsequent days.

6. At this time, an abnormally high demand for transportation faces the industry and this has been due to market forces, the extreme winter and the pent-up demand

for shipping, plus a heavy demand for the transportation of export grain. Likewise the recent coal strike caused a backlog of orders which shippers and receivers are attempting to overcome.

7. In effect, the ICC is alleging that railroads should maintain the capacity (locomotives, freight cars, labor, and fixed plant) in much the same manner that electrical utilities maintain reserve capacity to maintain tremendous excess capacity. This is not the case with the regulation of the railroad industry.

8. The industry and the Commission have been attempting for years to define "reasonable dispatch" without substantial success. Yet, ICC Order 1309 arbitrarily sets reasonable dispatch as 24 hours to perform the functions outlined therein. Further, Order 1309 isolates and in many cases would give preferred movement of shipments in box cars, gondolas, open and covered hoppers and we submit that it is impossible for shipments in these cars to be given such preference. Further it is discrimination against shipments in other type equipment.

In summary, the railroad industry has ample incentive for moving traffic expeditiously and efficiently (car hire, opportunity for revenue, yard congestion, shipper satisfaction). Imposition of fines for failure to do so is counter productive in that the diversion of funds to the Federal treasurer do not provide freight cars, locomotives, or labor. In the case of marginal roads, it can actually speed up the process of liquidation. Obviously, the cost to the railroad in fines increases the cost of doing business and if rates should be raised to cover these costs, additional traffic could be driven from the railroads to other less efficient modes. In the past, the Missouri Pacific has paid fines for violations of similar orders. The decision to pay these fines was not because we felt that they were just or reasonable, but that this action was preferable to the alternative of court action. While Order 1309 provides that exceptions will be considered to alleviate hardship or inequities, I submit that these exceptions needed are too numerous to enumerate and that the order is extreme to the extent that it cannot as a practical matter be totally complied with.

Insofar as naming a time frame which would be reasonable and workable, I have these comments. As previously stated, there is more than ample incentive for railroads to move cars expeditiously. A program which provided movement of any car within a given time frame would in many instances not be in the best interest of good operating practices. For example, it could mean in times of peak traffic the cars enroute in trains would be set out to pick up cars which may exceed the fixed time limit. Therefore, I believe that a stated time frame is totally impractical. In this regard, refer to Car Service Rule 18. This rule was written by the industry after considerable deliberation by the committee on car service and others and you will note that no specific time frame is included in the rule. It would be my recommendation that this is the maximum which should be proposed. Note also that rule 18 is an ICC mandatory rule.

. . .
J. M. TOLER,
VP-Transportation, Missouri Pacific RR.
JULY 14, 1978.

Re. ICC Car Service Order No. 1309

H. GORDON RANDALL,
Association of American Railroads, Car Service Division,
Washington, D.C. 20036.

DEAR GORDON: This concerns our telex of July 14, regarding Conrail's recent experience enforcing ICC Car Service Order No. 1309.

In general, we find the Order unreasonable for a number of reasons. Firstly, the Order does not recognize the realities of scheduling in an operation which is geared essentially to once a day service between most points. There is, as we all know, a minimum processing time required between the arrival of a given train and the departure of its traffic to the first outbound trains, for which a connection is scheduled. Any train, therefore, which arrives in a yard after that cutoff time, may contain traffic which must wait in excess of 24 hours for that same outbound connection on the following day. To move all traffic within 24 hours, then, would theoretically require twice a day service to all points. This is an extremely costly alternative which is untenable for Conrail. Additional resources required to maintain such service are unavailable on Conrail, and would be prohibitive from an incremental cost standpoint.

Secondly, Conrail has many yards requiring rehabilitation, which involve a long-range multi-year plan with heavy capital investment. In the meantime, congestion will occur in these yards periodically, often without advance notice, due to breakdowns in the physical plant, derailments, switch and other "hardware" failures and

so on. It is simply not practical to assume that all yards will be current and flowing smoothly at all times under these conditions.

Thirdly, in many areas we have local and industrial service which is programed on a less than daily basis, simply because of light volume. Some assignment operate based upon the availability of traffic rather than the day of the week, therefore, at any given time, cars may be detained. Once again, the daily service which would be necessary to abide by the provisions of the Order is simply untenable because of the incremental costs involved.

Fourthly, while the Order makes an exception for cars delayed because of the unavailability of power, this problem has been so important on Conrail that it must be identified as one of the reasons why compliance is impossible. The extreme winter weather of 1977-78 played havoc with the locomotive fleet and created a backlog of out-of-service units which lasted well into the spring. Insufficient power became a problem in many areas of the railroad, and was directly related to many violations of the Order. The same occurred with respect to "bad order" cars in that the high out-of-service ratio of equipment on Conrail has created backlogs at our repair facilities and made it extremely difficult to effectively move running repairs as defined by the Order (less than 20 man hours) through our car shops on a current basis.

Maintaining the demands of the Order with respect to weigh cars is also impractical, due to the lack of scaling facilities in some areas and a number of out-of-service scales in others. To weigh cars requires rerouting, sometimes backhauling, and this has led to many violations of the Order.

In short, we feel the Order simply does not recognize the realities of the railroad business, and assumes a perfect world which simply does not exist on this or any other Class I railroad.

The Commission's regulations should be restricted to prohibiting willful delays or hoarding of cars for prospective loading. Their regulations, if any, should direct shippers to route traffic via best service routes, rather than slow, circuitous routings. Railroads should be directed to distribute cars in an equitable and efficient manner and not to hoard or delay cars for subsequent movements.

Yours truly,

RICHARD B. HASSELMAN,
Senior Vice President, Operations.

CHICAGO, ILL., July 11, 1978.

H. G. RANDALL,
AAR, Washington, D.C.

Your wire reference ICC SO 1309:

1. Where once a day train service is provided on segments of the railroad, cars must be pulled no less than four hours prior to scheduled departure to allow for FRA car inspections and brake tests.

2. When cars are reduced for train length or tonnage problems, they must hold until the next train service over that line. Where tri-weekly or bi-weekly service is scheduled cars will be held over the 24 hours prescribed in 1309.

3. With increased FRA safety requirements which increases numbers of cars that must go to repair tracks which is adding to yard congestion, no specific time is reasonable to require repairs. Each case should be judged on its merits, however, a minimum of 48 hours should be allowed.

T. W. HARVEY, SCS CNW Transp. Co.

SPRINGFIELD, Mo., July 11, 1978.

H. GORDON RANDALL,
AAR, Washington, D.C.

Your wire 10th S/O 1309 every effort being made comply with provisions this order. However difficulties encountered with cars moving destinations and industries served by trains and switch engines scheduled only once per 24-hour period. Cars not arriving or not received sufficiently in advance of scheduled departure time cannot always be inspected and classified in time move train or switch engine that day. Also fluctuations in volume sometimes results more cars and/or tonnage being available than can handle on scheduled train. But not sufficient overflow warrant operation extra service. While am opposed to any arbitrary time limit due to varying circumstances inherent each location and type traffic feel 48 hour limit more realistic. GB.

T. M. GALLOWAY.

LOUISVILLE, KY., July 12, 1978.

Mr. H. GORDON RANDALL.

Reference your telex message of July 10 concerning forthcoming informal meeting between AAR officials and ICC Chairman O'Neal to discuss the unreasonableness of ICC Service Order No. 1309.

The 24-hour forwarding rule is completely unreasonable and we are bitterly opposed to it. Classification yards operate trains in many cases where traffic is held for once-a-day dispatch. Accordingly, it is virtually impossible to avoid having cars in the classification process meet the 24-hour requirement. Recent investigation into the processing time at one of our major classification yards revealed that of 1600 cars checked, approximately 500 would have failed the stringent 24-hour forwarding rule.

Detailed letter to follow.

J. I. ADAMS.

. . .

ST. PAUL, MINN., July 12, 1978.

H. GORDON RANDALL.

Your telex of 10th re meeting AAR with ICC on S.O. No. 1309. It is felt that under item (5X1) that a minimum of 24 hours should be allowed for movement of cars requiring light repairs or cleanings rather than first 7 a.m. after cars carded for such service. The 24 hours allowance for forwarding cars results in many instances of possible violations especially in terminals where pre-blocks formed and arrival of additional cars for such blocks cannot be made within the 24 hours permissible time. Urge consideration of at least 48 hours time allowance. A.1-372.

J. J. BOETTNER.

. . .

OMAHA, NEBR., July 14, 1978.

H. GORDON RANDALL.

Refer to your telegram of July 10, unreasonableness of ICC Service Order No. 1309.

We believe the order cannot be fully complied with. 48 instead of 24 hours is more reasonable for most terminals on Union Pacific with 72 hours where there is not continuous switching.

Details to follow in my letter.

W. R. DAVIS.

. . .

H. GORDON RANDALL.

A.A.R., Washington, D.C.

Referring to your telegram asking for examples of unreasonableness of ICC Service Order 1309 the order fails to take into account the fact that most industrial tracks and most way stations are served once per day and that outbound services from many major terminals is on the basis of *once per day* dispatch of certain classifications or blocks of cars. For example, from Hamlet, NC, we have once per day dispatch on New Orleans gateway traffic on our Train 215 and cars which arrive Hamlet 2 or 3 hours in advance of the departure of No. 215 on a given day will not move until the same train the following day. This same principle causes many cars to be delayed beyond 24 hours.

Another very serious problem is created by the fact that industry generally works a 40 hour week and this has the effect of causing rail traffic to experience peaks and valleys each week with a point occurring Sunday or Monday, and a high point on Thursday or Friday. As the result it is often necessary to carry over traffic Thursday and Friday until a lighter day on Saturday, Sunday or Monday, because facilities and train and yard service are not quite adequate to meet the peaks.

It would be uneconomical to adjust service to meet peaks because it would require an increase in rates without a corresponding improvement in service plan. Bad order cars often cannot be repaired within the time frame of the order because of the necessity of obtaining materials and quite frankly in some instances because of an overflow of bad order cars following a visit of FRA inspectors.

CHICAGO, July 14, 1978.

Mr. H. GORDON RANDALL,
A.A.R., Washington, D.C.

In answer to your wire dated July 10, 1978, requesting that we furnish examples of unreasonableness of ICC Service Order No. 1309.

It is our experience that during periods of seasonal rush, such as during grain harvest or periods of attractive prices on grain, that we are called upon to handle more loading than either our yard or track facilities or motive power would permit. A specific example of this was in the previous week. We had on hand 584 cars of grain for one port on the Gulf Coast. This particular port facility was unloading 100 cars per day from our railroad and they were also being fed cars by other railroads. The resultant pack-up of these cars not only delayed them but created within our terminals congestion that affected other cars. The same experience holds true during periods of inclement weather such as during the previous winter when all railroads became bogged down in loading and mechanical malfunctions as a result of the inclement weather.

As you are aware, at the present time we have an ongoing FRA program of changing out wheels on certain cars. This has created an unusual demand for wheels and the shortage has created a back-log of cars on our repair track, not only delaying those cars waiting for wheels, but other cars going to and from the repair track.

It is our opinion that it is impractical and unreasonable to set specific minimum hours for handling any and all cars through terminals. The time will vary due to weather, yard capacity, seasonal fluctuation and economic conditions and it is our opinion that the approach for service requirements should be that cars be moved in a *reasonable amount* of time with each car judged on its own merits.

We will attempt to furnish additional specifics in our letter to follow.

C. W. DAMIANO.

Supplemental Testimony
before the
House Subcommittee on Transportation and Commerce
regarding
Freight Car Utilization and
Car Identification Systems
by
William J. Harris, Jr.
Vice President, Research and Test
Association of American Railroads

July 25, 1978

I. Introduction

As indicated in the statement of Mr. Dempsey, the railroad industry has been considering ways and means to improve the management of its resources and to improve car utilization. One of the elements of this problem arises in location of cars in a train. The study of automatic means for providing this information has been in progress for nearly two decades.

Automatic car identification is a generic name for systems of widely varying concept which are intended "automatically," or without human intervention, to collect data on railroad rolling stock as it passes a fixed point. Other methods of obtaining the same information, by contrast, involve some employee participation in the process of recording data. The employee may, for instance, directly observe reporting marks on the sides of cars or observe them by means of remote television and record desired data manually. Whether the method is automatic or non-automatic, the data collected is used as an input for railroad information and control systems.

The abiding misconception about automatic car identification is that such a system necessarily has a beneficial effect on car utilization. This simplistic notion, which may have had its genesis in the early, optimistic industry estimates of the benefits expected from the optical system it adopted, can best be dispelled by describing the function of car identification in the railroad operating context.

When a train or cut of cars passes a device for collecting car information (a scanner in the optical system), the device records each car by initial and number and the order or sequence of cars. Thus, an automatic car identification system provides data on the composition of trains. In order to use this information for transportation operations, it must be merged with data on the disposition of the cars with respect to destination and routing. In a classification yard, for example, a switch or hump list cannot be generated until both types of information are available.

As indicated previously, data on cars and their location in a train can be obtained by a clerk who performs a roll-by or walking check or monitors a closed-circuit television system, as well as by automatic car identification. Other sources of composition data are advance consists and wheel reports. Disposition data can be obtained from waybills, advance consists, or from some form of car movement data file.

II. Sequence of Activities in Development of Automatic Car Identification

1959-1968

As far back as 1959, the railroad industry was exploring technological alternatives for car identification with electronics firms. In 1960 a Railroad Action Group, composed of representatives of six railroads, was formed. The following year a performance specification

was promulgated to the supply industry which elicited 32 proposals. Of these proposals, an infra-red system from one supplier and a microwave system from another were deemed the most promising by the Railroad Action Group's technical subcommittee. Other systems proposed then, or shortly thereafter, employed optical, laser, and radio-frequency approaches.

In the fall of 1962, the AAR Research Department issued an automatic car identification feasibility study. At the time of its preparation, there were said to be 19 different concepts proposed. In 1963 the AAR Board of Directors approved a program for testing and development of a standard specification for a working system. The same year, General Electric came forward with a prototype system, which was later extensively field tested.

In 1965 an AAR committee issued a report containing preliminary functional requirements and operating specifications. These specifications were later revised and issued to the supply industry in 1966 with an invitation for proposals. During this period, systems proposed by Sylvania, American Brake Shoe Corporation (Abex), and Westinghouse Air Brake Company (Wabco) were considered the most promising. These three companies were invited to participate in a six-month competitive test program conducted on the Pennsylvania Railroad.

In 1967 the test program was completed and evaluated by the Automatic Car Identification Committee of the AAR Data Systems

Division and the AAR Research Center. Sylvania's optical system was judged the best of those tested. In spite of the fact that the system failed to meet all of the AAR's specification, the AAR Board of Directors approved the recommendation that the Sylvania system be accepted as the standard one for the industry. Thereafter, the railroads voted by letter ballot -- one vote for each freight car and locomotive owned -- to revise the AAR Interchange Rules to require labels of the type proposed by Sylvania. (Sylvania later licensed Wabco to manufacture scanners, and Sylvania agreed that no license would be required for independent suppliers which wished to produce labels.)

The Sylvania system consisted of a light-reflective, color-coded label applied to the side of a railroad car and an optical scanning device positioned beside the track to read the label as the car passed by. The label had a series of bars, similar to the bars which appear on many packaged grocery items, of various colors. If read properly by the scanner, the label would disclose the equipment number and its owner's reporting marks. The system was also designed to determine the order of freight cars in a train, the number of cars in a train, and the presence of unlabeled cars.

1969-1975

Pursuant to the new requirement in Rule 88 A. 10. (later 9) in the Field Manual of the AAR Interchange Rules, the railroads began labeling cars. By 1970 it was estimated that 58 percent of the total

cars owned had been labeled and that 80-90 percent of the car fleet in interchange service had been labeled. Purchase of the scanners was not required by the new Interchange Rules amendment. By 1970 the railroads were reported to have equipped themselves voluntarily with 121 of the electronic devices; the following year the number was said to be 136. During this period the AAR Research Center conducted studies of problems associated with labeling and investigated an improved label design (louvered/tilted module). Servo Corporation replaced Sylvania as a supplier of scanners; Wabco dropped out and Computer Identics Corporation's subsidiary, ACI Systems, Inc., entered the field.

While the optical automatic car identification program was going forward, there were other related developments in the industry. Many railroads -- Burlington Northern, Missouri Pacific, Southern Pacific, Southern, and Union Pacific among them -- were perfecting computerized management information (or operating control) systems directed at improving freight car utilization and service reliability. Although all of these management information systems required accurate car location data, they did not depend on automatic car identification for this input. Automatic car identification was merely one method of entering data on cars into the railroads' computers.

By 1973 approximately 400 scanners were installed in the United States and Canada, and about 90 percent of the North American

fleet was labeled. (By 1975 it was estimated that 95 percent of the fleet was labeled.) There were, however, signs that many railroads which had experimented with the optical system were not finding it cost-effective in their operations, not only because expected benefits were not being realized, but also because the cost of the system exceeded original estimates. As a result the demand for scanners -- initially predicted to be in the range of 10,000 units -- further diminished. Additionally, it was recognized that technical problems, primarily associated with dirty and damaged labels, were substantial. The national correct read rate, the barometer of the adequacy of the system's functioning, never came close to the middle to high 90 percent figure deemed essential by many railroad operating officers, but instead trended downward toward an unsatisfactory 80 percent.

Although it is difficult to characterize the outlook of an entire industry, there seemed to be a consensus in this period that, despite disappointing experiences with optical automatic car identification, the system should be pursued aggressively in order to give it every chance to succeed. The AAR Research and Test Department actively promoted a label improvement program, and the AAR Operating-Transportation General Committee, composed of railroad chief operating officers, advocated intensified label cleaning and maintenance. Rule 73 B. 2. was added to the AAR Interchange Rules to make label cleaning mandatory when a car was on a repair track for any reason.

By 1975 many railroads had concluded that the program of intensified label cleaning and maintenance was not paying off, based on functionality reports which showed no discernible improvement in the read rate; and there were calls for the initiation of research into a second generation system. In July 1975 the AAR issued a limited invitation for suggested concepts for a second generation system, which elicited about a dozen responses from the supply industry. (Although there was no requirement that the concepts be non-optical, all suggestions utilized non-optical technology.) At the same time investigations into problems with the industry-adopted optical system were carried out in the AAR, the Railway Progress Institute, and the Department of Transportation.

In October of 1975, the AAR Research and Test Department issued a massive document titled "Automatic Car Identification Report to the Operating-Transportation General Committee." The General Committee, after consideration of this report at a special meeting to which all railroad chief operating officers were invited, made four major recommendations to the AAR Board of Directors, all of which were later adopted: (1) continuation of the automatic car identification system then in use; (2) research on upgrading that system; (3) development, evaluation, and testing of an advanced system; and (4) evaluation of costs, benefits, and uses of a very high read rate system. All label application and maintenance rules remained in effect with the single

exception of the washing requirement, which became optional. In this same period, apart from the Board action, "improved surface treatment" (IST) labels, developed as a result of extensive research by the supply industry, were made mandatory.

1976-Present

In 1976 the AAR Research and Test Department was engaged in cooperative research with the Federal Railroad Administration into the potential for improvement to the industry-adopted optical system. In addition, the AAR was developing a plan for a study of the cost, performance, and engineering specifications associated with a satisfactory automatic car identification system, and for evaluation of the viability of the then-current and proposed systems based on these specifications. By the end of the year, preliminary "strawman" specifications had been drafted.

Early in 1977 the AAR issued a request for proposals for an automatic car identification system for the American railroads, along with the specifications which had been developed the preceding year. A railroad-supply industry pre-proposal conference was held, and ultimately 9 concrete proposals were received. They involved microwave, radio-frequency, and optical technology. These proposals were then evaluated by the AAR and its consultant, ARINC Research Corporation.

In June the AAR Research and Test Department issued a lengthy report on automatic car identification as the culmination of its work

pursuant to the AAR Board's plan of action adopted in late 1975. The AAR's report was supplemented by one from the Federal Railroad Administration. These documents, as well as oral presentations by Research and Test, the FRA, and individual railroads were considered by the Operating-Transportation General Committee, an excerpt from the report of which is set out below.

It was the consensus of General Committee members that, regardless of what studies may show to be the generalized costs and benefits of ACI to the railroad industry as a whole, the experience of most railroads is that the system is not cost-justified, meaning that: (1) benefits do not exceed costs; or (2) benefits do exceed costs, but other investment opportunities offer promise of greater return. Also, for some railroads, shortage of capital requires expenditures on essentials, such as track, roadbed, and locomotives, instead of expenditure on ACI, in spite of the fact that ACI may appear to be a potentially attractive investment.

It was the consensus of the Committee that it is unfair for all car owners to continue to bear large expenses for the sake of the few railroads which have decided to make extensive use of ACI. It was noted that many, if not most, of the railroads which currently utilize ACI can and will continue to use ACI on their own for many years.

Additionally, it was the consensus that most railroads have been disappointed with the performance of the present system and that most doubt that laboratory results for an improved system would be duplicated in actual use in the field. It was felt, however, that, even if optimistic predictions of future improvement are accurate, other technological advances -- among them, advanced car information control systems and improved remote TV -- have rendered ACI much less essential than it appeared to be a decade or two ago. For example, the problems of open records and lost

cars were much more prevalent in the late 1950's, when the concept of ACI was developed, than they are today.

At the conclusion of this extended discussion, the following resolution passed unanimously: As a result of the experience of railroads since the introduction of ACI; as a result of other technological advances in the field of railroad operating procedures following the introduction of ACI; as a result of the system's failure to produce operating and economic benefits that had been anticipated from ACI when it was originally adopted; as a result of competition for capital from investment opportunities with higher return potential than ACI; as a result of the consequent low level of usage of ACI in the railroad industry: the O-T General Committee recommends to the AAR Board of Directors that the Mechanical Division be directed to initiate procedures to eliminate Section A.9. of Rule 88 and other related provisions of the AAR Interchange Rules which require the application of ACI labels to railroad equipment (cars and trailers/containers) utilized in interchange service, as well as all mechanical repair billing charges associated with the application and maintenance of ACI labels.

The AAR Board of Directors by a vote of 15 to 2, with one abstention, referred the report of the Operating-Transportation General Committee to the AAR Mechanical Division, which conducted a letter ballot vote of the railroads. Of 1,498,919 possible votes (one for each freight car owned), 1,022,760 were cast in favor of ending the requirement for mandatory application of the labels which were part of the first generation optical system. There were 213,163 votes to continue mandatory labeling, and two roads, with a combined vote of 234,340, abstained. (28,656 votes were not cast.) Forty-eight railroads

participated in the balloting, of which number 10 voted to retain the labeling requirement.

Nothing in the action of the car owners precludes continued use of ACI by interested groups of railroads or shippers. Especially in cases of dedicated blocks of cars moving over designated routes, labels can be applied, maintained, and read by scanners if it is in the interests of the car owners or railroads to do so and appropriate agreements are made.

Since the time of the letter ballot, the railroad industry has continued to promote and support the development of technologically superior and cost-effective approaches to car identification. For example, the AAR Research and Test Department currently has a study underway to assess the application potential of optical pattern recognition technology for automatically providing car identification data to railroad management information systems. In this approach the same car identification information -- the stencil on the side of the car -- could also be read directly by a human operator. Such systems offer the advantages of automatic capture and entry of information, while eliminating the need for attaching a special label, readable only with a special electronic device, to every car.

The AAR also has underway a study and demonstration of advanced television cameras which employ solid-state image sensors. The purpose is to determine the applicability of these devices to

improved car identification systems in railroad operations.

These cameras offer the potential of significant improvements in readability at higher speeds than conventional videcon television cameras. In addition, they are less susceptible to image "burn in"; have a significantly longer life; are smaller and lighter and use less power than conventional cameras.

A major railroad is currently testing one of the electronic car identification systems evaluated in 1977 by the AAR. This system employs a special electronic label device, affixed to the underside of a car, which is encoded with car identification information. An antenna, which serves as a label interrogating device, is mounted between the rails. When the label on a car passes over this interrogation antenna, it generates a coded electronic signal which can be transmitted to a computer and translated into the car identification information. The system has been in use for approximately one year, and the results are encouraging.

Additionally, the AAR and individual railroads have plans for demonstrations, tests, and installations of other new car identification systems under consideration. Discussions are in progress with several manufacturers.

III. General Observations

Automatic car identification has been and continued to be thought an experiment worth pursuing because of its potential for

reducing the time and cost of operations by providing composition information when alternate sources cause errors or delays in operations. For example, if clerical preparation of a switch list for an inbound train takes longer than the other yard operations (yarding; clearing bowl, tracks, and leads; mechanical inspection; bleeding air; and dispatching switch power and crews), an automatic car identification system can provide benefits if it reduces clerical time. Realization of these benefits, however, would depend on the availability of timely disposition data as well. If, on the other hand, inbound clerical processing already takes less time than the other yard functions, as is typically the case, further reductions in time achieved by introducing an automatic car checking system would not materially improve overall operations.

If an automatic car identification system is sufficiently accurate, it can eliminate the need for manually prepared switch lists as trains enter yards, as cars are pulled from classification bowls, and as trains depart. The accuracy of information obtained from identification systems for such functions depends to a great extent upon whether some form of advance consist (stored in a computerized operating control system) exists to "enhance" the data from the information system. By enhancement, in many instances, the identification of cars not "read" or improperly read by the automatic checking system can be logically deduced by the computer from information on the consist.

However, not all railroads have advance consists for all of their road trains, and most railroads have little or no advance consist data in their systems for local, industry, and interchange trains. Without a consist to enhance automatic car identification output, any failure to make a correct read by the automatic system requires a clerk physically to check the train or to identify the unread or improperly read car by some other means. In the absence of consist information, the identification system must have a very high correct read rate in order to eliminate the need for visual observation. If the system is not characterized by high performance, the manpower and time required to make backup checks greatly reduces the benefit derived from the automatic system.

In summary, the benefits from an automatic car identification system will vary depending on such factors as the information and control system with which the checking system is used; local operating characteristics, such as mix of road, local, industry, and interchange traffic; type and quality of advance consist data for each of these kinds of traffic; and local yard clerical and operating procedures. The overall mix of these factors varies greatly from railroad to railroad and from yard to yard, with the result that cost and performance requirements for a viable automatic system also vary greatly. Some railroads may be able to cost-justify an investment in a relatively low-performance system; others may require considerably higher performance to

cost-justify the same investment. Costs and benefits cannot be determined by generalized industry-wide analysis, but must be ascertained on a road-by-road basis, and even on a location-by-location basis within a given railroad.

Clearly the railroads themselves are in a better position than suppliers to analyze their operations and assess the costs and benefits of various automatic car identification systems, taking into consideration the factors mentioned above and any other factors which may be unique to individual roads or yards. Furthermore, cost/benefit analysis of identification systems must, in each instance, be viewed in the context of individual railroads' other investment opportunities and capital requirements. As the AAR Operating-Transportation General Committee noted in its report recommending discontinuation of mandatory labeling (page 9 above), an automatic car identification system may not be seen as cost-justified by a given railroad because other investment opportunities offer greater promise of return or (the more likely possibility) because shortage of capital requires allocation to such essentials as track, roadbed, or locomotives rather than to an identification system. Even if capital requirements in the operating control area could be seen in isolation from requirements for track maintenance and so forth, it would remain for the railroads to assess many options for improvement, e.g., larger capacity computers or development of computer programs for yard systems -- in addition to automatic car identification.

For nearly 20 years the railroads, which are in the best position to assess technological options in the operating environment, have studied and evaluated a variety of approaches to car identification. The industry continues actively to promote research in which there is lively competition among innovators pursuing many different concepts.

As the Introduction section of this statement amply documents, railroads, through the AAR and individually, have conducted research and tested a wide range of systems approaches to car identification. When exotic technology was proposed which was considered beyond the competence of the industry to evaluate, leading consultants were hired to assist the AAR. A major experiment with one version of one concept -- optical automatic car identification -- was carried out for a decade. The industry continues to finance a testing program and vigorously to encourage suppliers to propose systems worthy of consideration for industry-wide adoption in the belief that competition among innovators is the most likely means of achieving desired improvements.

The complexity of classification yards and the information systems needed to support their operations is often grossly underestimated by persons not directly involved in railroad operations. Only the railroads themselves can bring to bear on the evaluation of proposed systems a thorough knowledge of this complex environment.

IV. Conclusions

It is essential to recognize the automatic car identification systems provide only one of the pieces of information necessary to manage a car fleet. Accordingly, such as automatic system does not necessarily contribute to improved car utilization. Thus, its costs compete with other investments affecting car utilization. The majority of railroads have concluded that at present and projected costs for systems requiring a special label affixed to the car, mandatory labeling by all car owners of all cars is not warranted. This conclusion does not deny the opportunity for individual railroads or car owners to use automatic car identification systems as they deem appropriate.

Thank you gentlemen.

-ooOoo-

Mr. ROONEY. Without objection, it will be made part of the record.

Mr. SKUBITZ. Mr. Chairman, I wonder if I may ask the gentleman one question at this moment. When did this happy marriage between the railroads and the ICC come to an end? What broke it up?

Mr. DEMPSEY. Mr. Skubitz, during the debates on the coal slurry bill Mr. Udall, whom I think is one of the most engaging people in the House—even though he was on the other side—referred to the Interstate Commerce Commission as the “Wholly-owned subsidiary of the railroad industry,” and I can only say, if that were only the case, it would be a subsidiary that would be liquidated in very prompt order.

Mr. SKUBITZ. You have not answered my question. My question is, when did the marriage break up?

Mr. DEMPSEY. Apparently I am too young to remember when the marriage took place.

Now, Dr. Harris would be glad to summarize in a minute or two the ACI testimony, but I leave that to your discretion.

Mr. ROONEY. I think we would like to hear it. Mr. Harris?

Mr. HARRIS. Mr. Chairman, one of the elements that the railroad industry has been examining over the period of a couple of decades related to car utilization, is the study of better ways of locating cars in trains.

Automatic car identification is a generic name for systems of widely varying concept that are intended automatically to collect data on railroad rolling stock as it passes a fixed point. But other methods of obtaining that information, by contrast, involve some employee participation in the process of recording data.

The abiding misconception about automatic car identification is that such a system necessarily has a beneficial effect on car utilization. This notion that we may have inadvertently contributed to in our early publicity about our action to adopt an ACI system can best be dispelled by describing the function of car identification in the railroad operating context.

When a train or cut up cars passes such a device, the device records cars by initial number and sequence in the train. To use that information for transportation operations it has to be merged with other information gotten from totally different sources with respect to destination and routing of those cars. Accordingly, since you can get the data on where cars are on the train with the human applicator, with a clerk, the automatic car identification thing has to be examined whether it is cost-beneficial; but it is not in its own right automatically a contributor toward improved car utilization.

We begin a detailed exploration of these systems about 20 years ago. Before I joined the industry the research and test department was charged with responsibility, along with other groups in the industry, for evaluating a whole variety of systems. In 1967, we completed tests, and the AAR Board, although the tests indicated no system met all of our requirements, the AAR Board adopted one of the systems as being the best, and it was a requirement placed in being then that all cars be labeled. But the railroads were left free to determine whether they would put the scanners in place

that looked at the labels at the side of a car to do this automatic car identification function.

We studied the problem in detail and continued to work with the industry to try to improve the reliability and the readout of the system. But there were other procedures being developed at the same time, computerized management information systems directed at improving freight car utilization and service reliability, to which the ACI was merely one of the kinds of inputs.

There were signs by 1975 that many railroads who had experimented with the system—and more than two dozen bought scanners and examined how they fit into their systems—these experiments were not, for many railroads, found to be cost effective in their operations. Not only because the benefits were not being realized, but because the cost of the system exceeded the original estimates. As a result, though we had an original estimate of a requirement for 10,000 scanners, there were never more than about 400 purchased; and never were there in use more than about 200. So, they had no major impact at any time on the railroad system, although some railroads did find them useful under very specific and selected circumstances.

In 1975, when these problems arose all of us, the operating department for railroads under the AAR, the data systems department of AAR, and my own research and test department engaged in a massive effort to see if we would upgrade the system and make it more useful; and the FRA participated in some cooperative research programs. But after attempts for 2 years to look at this with two or three major research investigations by my associates, and some consultants, we finally had a major session to determine what to do.

As a result of that the Operating Transportation General Committee arrived at a consensus that regardless of what studies may show to be the generalized costs and benefits, the experience of most railroads in the system is not cost justified, meaning either the benefits do not exceed costs; or benefits do exceed costs but other investment opportunities affecting car utilization offer a promise of greater return.

So, based on that conclusion it was the consensus of the committee, it is unfair for all carowners to continue to bear the large expense of labeling cars and maintaining the labels for the sake of the few railroads that have decided to make extensive use of the system. It was recognized that the railroads could continue to use the system and in fact there was nothing in the action taken at that time to discourage railroads from using it, but only after action of the general committee and then vote by the carowners and the industry, the decision was taken to eliminate the requirement for mandatory labeling of cars.

Again I repeat, nothing in the action of those carowners precludes the use of ACI by interested railroads or shippers, and especially in the case of dedicated blocs of cars moving over designated routes labels can be applied, maintained and read by scanners if it is deemed to be in the interest of the carowners or the railroads to do so, and appropriate agreements are reached.

We are continuing our study of advanced ACI systems. We are prepared to recommend adoption if any appear that have the ad-

vantages that originally were sought in this system. We have concluded, again, that it is essential to recognize that ACI systems, automatic car identification systems provide only one of the pieces of information necessary to manage the car fleet. Such an automatic system does not necessarily contribute to improve car utilization; its costs have to compete with other investments affecting car utilization, and the majority of railroads and the majority of car owners have concluded that at present and projected costs for systems requiring special labels affixed to a car, mandatory labeling by all carowners is not warranted. And finally, again, this conclusion does not deny the opportunity for individual railroads or carowners to use automatic car identification systems as they deem appropriate.

Now, this statement gives you a good deal of history of our development, of our study, and of our dedication toward making this system work—it did not, and so I now offer the view to you that the car utilization problem, and the research that Mr. Wooden and my department are doing with railroads and FRA in this field does not include the ACI issue because the ACI issue is deemed to be relatively minor with respect to its relationship to the whole problem of car utilization.

Thank you, Mr. Chairman.

Mr. ROONEY. Thank you, Mr. Harris.

Mr. Dempsey, on page 6 of your statement you state that the ICC has frustrated your efforts to improve car utilization. I wonder if you can tell the committee and describe more thoroughly what practices you were attempting to make more efficient.

Mr. DEMPSEY. Well, the kinds of things I was thinking about in particular were car service orders, like Car Service Order 1309, the order that they required dedication of a certain number of cars out of unit-train service, as Mr. Sullivan has indicated, tamps down on efficient car utilization.

Then, the frustration of the ability of the industry to use peak demand rates. Here we have a situation in which, as Mr. Sullivan indicated, the Southern Freight Association sought authority and put in peak demand rates during what would normally be the peak demand time. But, it just so happened that grain prices were down, so, the shipments did not come until after that time expired, and they were required to go back. So, what they had in effect were high rates during a low demand period; and then low rates during a high demand period.

Now, the ICG attempted to circumvent that problem by asking the Commission for authority to put in peak demand rates on 1-day notice. The Commission could and should have done that—but it did not. That, in effect, makes the ability of the railroad industry to respond to the kind of unregulated competition we have from barge lines in the movement of grain, it robs of us that ability.

Those are, I think, representative examples of the action of the Interstate Commerce Commission that are relevant to the car utilization problem. They are thinking of others, they say. We understand, for example, that they are considering some sort of legislation that would give them the authority to require the industry to acquire additional locomotives and additional cars. I assume that they would get the authority at the same time to send us checks to

do that with. They are considering, we understand, doing away with some of our car service orders that are designed, in our judgment, to move cars more effectively.

I am frank to say that we have every incentive to move these cars as efficiently as possible. We think we have more experience, more capability, more flexibility to deal with these problems than the Interstate Commerce Commission does.

Mr. ROONEY. How quickly, do you think, they should be moved from the yard?

Mr. DEMPSEY. Well, as the responses that are appended to my testimony indicate, the majority of operating people say that you have to have a rule that it ought to be no less than 48 hours. We would prefer not to have any rule at all because even a 48-hour rule can give you difficulty. But, as a general proposition, if you had to have a rule, 48 hours with the appropriate exceptions.

Mr. ROONEY. Mr. Dempsey, on page 9 of your statement, you state that, "The railroad industry has all the incentives to improve freight car utilization it will ever need." You may recall, I made a similar remark in my opening statement. Then you go on to state that you are doing everything you know how, to deal with the problem. The fact remains that the industry has a serious car utilization problem. I am wondering what the solution can be? You state the ICC is part of the problem, rather than part of the solution. In your opinion, what Congress might do to become part of the solution.

Mr. DEMPSEY. Well, I suggest—not really facetiously—if not an elimination, a sharp curtailment of the ability of the Interstate Commerce Commission to interfere in this area by the issuance of car service orders. I think that long-range solutions here have to do with the kinds of things I was talking about at the end. We are working, I think, with the Government right now as effectively as anyone can—I am talking about the FRA—in the program that Mr. Wooden is heading for us, in an effort to identify every possible means of expediting the movement of these freight cars. I think that is the full extent of Federal involvement that we need in that sense.

But in the long run not only the car utilization problem, but all service problems of the railroad industry will be solved only if we can break this—I will not even call it a "cycle", it is not a cycle—this chronic depression of rail earnings; that is the key to the problem. Now, our situation would be much better now if we had the financial resources—I am not talking about individual companies but as an industry—if we had the financial resilience to have a better order ratio than we have for our car fleet, and for our locomotive fleet. We have not just shortages of cars, we have shortages of power.

We do not have that financial resilience as an industry, dealing with the kinds of financial figures that I have displayed to the committee. Now, there I talked about the way in which the Interstate Commerce Commission, while the Congress has directed it to march in one direction, has been counter-marching in another direction; and instead of devising means to improve the earnings of the industry, it has been devising means to curtail the financial capacity of the industry.

At the same time, if I may mention it, that other regulatory agencies, without the direction of Congress, are moving toward deregulation. We find the Interstate Commerce Commission, notwithstanding the directions of Congress, are moving us into a maze of ever more fine-grained webs of regulations.

Mr. ROONEY. I introduced a bill recommending ad valorem tax on freight cars until June 30, 1980, when car manufacturers in this country will be up to capacity. Do you think this will alleviate any kind of condition?

Mr. DEMPSEY. I have not had an opportunity to examine the bill in detail, Mr. Chairman, but in general it seems to me that a measure of that sort might very well be helpful. I would add that we have problems in respect to customs regulations when we want to use Canadian or Mexican cars that they are willing to let us use in times when we have demands and they do not. We are trying to work those out. But legislative solutions may be necessary there.

Mr. ROONEY. The chair recognizes the gentlelady from Maryland.

Ms. MIKULSKI. Mr. Dempsey, I am interested very much in the project that Dr. Wooden is heading up. Also, sitting on the Subcommittee on Communications where we really go into almost Star Trek technology in communications, I find it somewhat surprising to hear the report that the ACI did not work. What I keep hearing is, "We lose cars, we do not know where our cars are", and that this contributes to the overwhelming freight car shortage. I hear that a lot. At least, those are part of the excuses or reasons that I get.

I find it difficult to believe that there is not some kind of an electronic monitoring system that could keep track of freight cars.

Mr. DEMPSEY. I would like to turn this over to Dr. Harris, or if Mr. Wooden would like to speak to it—but we have it. We have a very sophisticated car location system at the AAR, it is a massive system. For example, during the coal strike we were working with the Department of Energy. We knew where there were 40,000 or 45,000 empty coal cars; we helped them get the cars, and we moved an awful lot of western coal east because of the system that we have. It is, as I say, very advanced technology. But I would turn, for amplification of that, Dr. Harris, would you like to speak to it? Or Don.

Mr. HARRIS. There are two matters I would like to respond to. In the first place, there surely was a time, 2 or 3 decades ago, when the problem of lost cars was an important one. But so far as we now can ascertain—and this is based on the centralized car information system—the problem of lost cars has essentially disappeared. Surely, there are examples; there are special instances where cars are lost, but that is not a generic problem and I think Mr. Martin might want to speak to that particular point.

Ms. MIKULSKI. Listen, I have 5 minutes, so, if you guys could—

Mr. MARTIN. I will make this very brief. In our system we have a computerized car location system. Each of the railroads feed information on the car movements into that computer, and from that computer we are able, on a regional basis in the country, to determine where the preponderance of different types of equipment are located.

From that information the AAR through authority granted by the ICC does a great deal of car distribution here at the AAR. That information is available to us, it is an actual movement record of that car. We call it a boundary crossing, which simply means that each time it moves from one railroad to another, we have a track on that car, and it is fed in to us. From that we make analyses of the information, determine the types of equipment in certain parts of the country. We also are able to issue orders in connection with movement of those cars to the area of need, and we do just that.

I would like to quickly say that ACI, since you did mention it, ACI was primarily designed to provide information for the yard switching purposes; it is not the type of a system that you capture all of the information necessary to do the kind of a job of distribution that is needed. It was primarily for switching purposes at yards. Frankly, there were other systems that came along, and they were installed, television monitoring of freight cars moving in and out of terminals are also used. So, there are some electronic devices.

But overlaying all of that is the computerized Train II System which tracks all of the cars throughout the country. With respect to ACI—

Ms. MIKULSKI. Wait, I would like to reclaim my time for just a second.

Right now the Missouri Pacific Railroad has an automated means for allocating empty freight cars. Now, one of the things that I am interested in also, as we work on the Communications Re-Write Act, to make it easier for new technology to develop. I wonder if you could ever foresee a national system comparable to that Missouri Pacific system, where we could move cars more efficiently than this present system of rules and car-hire charges.

Mr. MARTIN. If I might, I would like to answer in the affirmative to that. Missouri Pacific has a very sophisticated system, it is much more sophisticated than most other carriers'. However, what I would like to quickly add, that many other carriers are moving in that direction. There is the question of cost—and it is a rather tremendous cost to implement the type of a system the Missouri Pacific is into. But they do have one of the more advanced, sophisticated systems for tracking cars.

I agree that some day we ought to be able to do away with most of the car service rules that in effect in some cases are counter productive.

Ms. MIKULSKI. You know, my problem is, the Port of Baltimore cannot wait for "some day"—neither can New York. And of course, as the Chairman said, we can go to the moon, but we cannot get enough freight cars.

I would just like to make a little statement, Mr. Dempsey because I admire your leadership. I read a book once called "Atlas Shrugged" where a new female folk hero named Dagny Taggard was developed. She talked about, "How do you run railroads?" Well, I do not always agree with her political philosophy, but I sure liked her imagination and drive.

One of the things I would like to urge your organization to do is to give this development a sense of urgency and a sense of priority. I feel that the railroads are approaching this in a very piece-meal,

fragmented way, with each little railroad off doing their own thing. Of course, the economy of scale is not going to be warranted for the type of investment. I would hope that your association would be getting these tycoons around the same table at the same time, and talk about some creative ways of coordinating and pooling resources. Perhaps we need to move a little bit differently in our antitrust activity so that you could begin to develop some national system for dealing with this problem, where it would not just be Missouri Pacific off doing their own development of new technology.

I yield to Dagny Taggard.

Mr. DEMPSEY. I do not know if it is relevant, but I read that book; and it was loaned to me by someone of the Union Pacific Railroad.

Mr. ROONEY. The gentleman from Kansas.

Mr. SKUBITZ. Thank you, Mr. Chairman.

First, Mr. Dempsey, there is a seasonal shortage of box cars for grain purposes—has been and always will be, I am sure. The point I was trying to make when talking to Mr. Sullivan was that the excuses we have gotten for the past 34 years had to do with climate, and explosions, and what have you. Some of us, who knew the issues, knew that it was a seasonal problem.

What we were after the railroads for, and after the Interstate Commerce Commission was to get faster turn-arounds and get these cars back into circulation in the grain area. Is that not correct? Or was that before your time, too?

Mr. DEMPSEY. That is exactly right. Well, even if it was, I am not sure about that. But I agree with you, it is a seasonal problem. Now, it can be exaggerated by the winter problem that we have.

Mr. SKUBITZ. This is right, but basically it is a seasonal problem.

Mr. DEMPSEY. Some years it is worse than others.

Mr. SKUBITZ. But the thing I am getting at, when the railroads sit on their fannies and do not do something about getting a turn-around, then the Interstate Commerce Commission has to move in and try to get the railroads to do something about getting the cars back to the areas that needed cars. That was our problem with grain cars.

Mr. DEMPSEY. But that is where I, with all respect, do not agree. I think that the railroads are doing an effective job. I am not saying it is the most effective job that can be done, I am sure we can improve on it. But if you examine with care particularly the supplement to my statement, the description of the Freight Car Utilization Research and Demonstration Program, it is solid evidence that for the last several years we have been dedicating an awful lot of time and energy to this whole matter of turnaround time, which we recognize is critically important—critically important, there is no question about it.

Now, whether we could do better, I have no doubt we could do better.

Mr. SKUBITZ. I am sure you can, too.

Mr. DEMPSEY. On the other hand, what I do suggest is that the Interstate Commerce Commission has demonstrated that it can only do worse.

Mr. SKUBITZ. I am still wondering why the marriage broke up.

It is true, I am sure, and you agree that in grain it is seasonal. Is the same true of coal too, that it is a seasonal matter. Or have we reached a place where coal is a matter that we really have to get into because we need energy not only in the winter, but in the summer—all the time.

Mr. DEMPSEY. Well, we had a temporary problem here that you have every three years when the coal contract is up. You have the build-up to begin with, of inventory; and then you have the catch-up after the strike, if there is a long strike. So, we have that. But that is not really seasonal.

Mr. SKUBITZ. With coal hoppers it is not really seasonal.

Mr. MARTIN. Well, with one exception, there is a peak just prior to the miners' holiday, we run into a peak period.

Mr. DEMPSEY. Right.

Mr. MARTIN. But normally it is a fairly level movement.

Mr. SKUBITZ. That is what I am getting at, and the pressures are going to be more on the railroad than ever for local hoppers; is that not correct?

Mr. DEMPSEY. We hope so.

Mr. SKUBITZ. I am happy to learn that because we had a slurry coal pipeline bill on the floor the other day, and I am sure you know the position that our chairman took on that, and myself; we have been trying to stop that sort of legislation. You are familiar with that?

Mr. DEMPSEY. I am familiar with it, and I am sorry if you were not in when I expressed our appreciation.

Mr. SKUBITZ. It does not make any difference because it leads me to my second question. I was under the impression when I took the floor against the coal slurry pipeline—not the impression but the facts that have been given to me by the railroads, that they could now and in the future provide enough cars to carry all the coal that was necessary and needed. Is that a correct statement or not?

Mr. DEMPSEY. I think that is a correct statement, Mr. Skubitz. Now, I would add it was not simply the railroads that said that, that would have been self-serving and I am sure would have been looked upon with some skepticism. But that was also the result of the study by the Office of Technology Assessment and the DOT, and the input of computer services and two or three other independent studies made by four Government agencies.

Mr. SKUBITZ. Now, you were here when Dr. Carter testified?

Mr. DEMPSEY. Yes, I was.

Mr. SKUBITZ. And Dr. Carter testified that the L. & N. Railroad is delivering about 20 percent of the cars that are needed by small mine operators for transporting their coal. That there is one operator that has over 80,000 tons of coal on the ground, which represents 2 million dollars' worth of coal.

Your colleague here has indicated that you have a fantastic system over at the AAR where the railroads feed into you where the cars are all over, and that you have the ability to send the cars where they are needed.

Why do these small operators only have 20 percent of the cars they need? I ask that question because my father was a small coal-mine operator. We had the same problems 50 years ago. We were last on the line to get a car. Our big difficulty was that if we had

coal sitting on the ground and no cars, we still had to find money somewhere to pay the miners. We just did not have it, so, we went broke at that sort of business.

Now, why have you not done something about getting some cars down into Kentucky?

Mr. DEMPSEY. Well, let me say a few things about that situation, Mr. Skubitz. The first thing I must say is that it is not a matter with which I personally am familiar. Now, if you would like us to inquire into it and supply a more detailed response—

Mr. SKUBITZ. That is exactly what I am asking you to do, and I would like to know about it next Monday morning, at least.

Mr. DEMPSEY. Let us see what we can find out.

Mr. SKUBITZ. You know, it is kind of embarrassing to me to go on the floor and say the railroads can put all the cars out that are needed to carry the coal, and then I am faced with a situation like this where you tell me you cannot do something about it.

Mr. DEMPSEY. I do not know if the AA can do anything about it, but what I am saying is that I am not personally familiar with the situation and I will see what information we can get. But I would like to add a few comments about it. We do have national figures, and those figures I have already provided. But they are as follows: We had a coal car shortage because of the surge in transportation right after the strike. So, we had a peak shortage in the week ending June 18 of 8,100—I am talking about general service hoppers, now.

Mr. SKUBITZ. Well, let us not get into those statistics.

Mr. DEMPSEY. Well, all right, but I just want to say, that is down now in our last period to 3,700 cars.

Mr. SKUBITZ. I want to get to something else, and that is this, that you have been cussing the ICC for what it is doing, and my understanding is—correct me if I am wrong—what the ICC is trying to do is to say, "Release some of the cars that you are putting in these unit trains so that they are going to be available to some of these small producers. And if you are not going to do it, then we are going to do something about it." Is that a correct, or partially correct statement?

Mr. DEMPSEY. We do have data on that, so far as the L. & N. is concerned, and I am going to ask Mr. Martin to provide that because the L. & N. is providing many, many more of their cars to small shippers than to unit train service.

Mr. MARTIN. Yes, and I must use a couple of statistics, and I must also mention an ICC order which is also involved in this whole picture. But the L. & N. Railroad owns approximately 32,000 serviceable open-top hoppers.

Mr. SKUBITZ. I have 33,345—all right?

Mr. MARTIN. Serviceable, I am giving you serviceable hoppers, and there may be some additional ones that are out of service. But of those about 28,000 are in coal service. And of that 28,000, 22,000 are in service for single-car shipment, roughly—those are estimated figures—and there are 6,000 of those in unit coal train movement.

Mr. SKUBITZ. Let me ask you another statistic, so we can keep our statistics side by side. My figures are, in December of 1977 L. & N. had 33,345. In December of 1972 they had 34,902, that is 1,557

cars now less than they had in 1972, and they are hauling 186,000 tons more coal than they did then. They have never gone before the FRA to try to get some money to get some new cars; but they did pay out about \$14.5 million to their stepfather, the Seaboard. Now, go on with your statistics.

Mr. MARTIN. All right. My figure that I gave you is serviceable hoppers. I believe what you mentioned is total ownership of hoppers, there is the difference. There may be some 2,000 cars out of service. I am talking about serviceable hoppers in service, ready to move freight.

Of the 28,000 cars in coal service, 22,000 of those cars are in single car service. Six thousand of those are in unit coal train service. Private cars total 1,800. Now, here is a statistic that is important. Of the 7,800 cars that are in unit train service the average turn-around is four turns per month, moving about 34,000 cars of coal. The 22,000 cars that are in single car shipment service are getting about 1.6 round trips per month and are moving about 31,000 cars per month.

Now, what you have in effect when you talk about the ICC order to take cars out of unit train service, it does affect utilization. There is a much better utilization in turn-around involved in the 7,800 cars in unit train service as compared to the 22,000 cars in single car shipments.

One other thing I would like to mention, ICC Order 1318 controls about 80 percent of the total hopper fleet in the United States. That involves about 10 or 11 railroads, and those cars are restricted. You asked the question, why did we not move some cars there. We cannot, under 1318, unilaterally move cars to the L. & N. of other ownership, under Car Service Order, ICC Order 1318.

Left to our distribution system, we think we can do a better job than that, than being saddled with an ICC order.

Mr. SKUBITZ. If they have 6,000 cars in the unit train system, what is wrong with getting them out of there and putting them into this other service so they will get the cars? Why can you not send over 6,000 cars to make that up?

I am not familiar with the regulation that you speak of, I will be by next Monday morning, I assure you.

Mr. MARTIN. In answer to your question, of course we do not make the decision on how many cars L. & N. commits to unit train service, that is a management decision. We do not make that decision for them. I think the percentage of cars they have handling single-car shipments is a relatively high percentage of the total fleet.

Mr. SKUBITZ. May I say to you, Mr. Dempsey, I realize that you do not. But here is one Congressman that knows he can talk to you, and you can convey the message down there that they damned well better start looking into this problem of trying to take care of these small producers down there whose livelihood depends on it, whose very existence depends on it, I realize that unit systems that you are using today may be more effective, may be more profitable. But in turn this committee has a responsibility, and the ICC has a responsibility of looking after the total public interest, not after just the few.

Mr. DEMPSEY. Well, I think I understand the message, and I can certainly, and will convey it. I would like to add one further thought, and this is not meant to be critical of the small coal operators at all in this particular situation, or the coal industry in general; but I will say this, we are going to be able over the years, we believe—and so do the other people believe—we are going to be able to raise the capital over \$10 billion necessary to deal with this additional coal movement. But, it is going to be tough—it is going to be tough. And as long as we are skating as close to the edge as we are right now, our resources are thin, they are stretched, and we are going to have, and you are going to have complaints. There are going to be repeated complaints about service from the railroad industry, not just in coal, but in other areas.

I think it would behoove the shippers—the shippers, the coal industry, to take an example, to look at the financial resources of the industry and not to flock to the ICC when we come in seeking the rate increases that are absolutely essential to give us the capital to provide the kind of service that they rightfully want to have.

So, if you ever have an opportunity to pass that message on to some of our major and minor shippers, I would hope you would do that.

Mr. SKUBITZ. I think I have passed the message on that you are entitled to a fair payment for the shipment of these goods. The consumers are going to get it anyway, they have to pay the final bill, no matter what it is.

Mr. DEMPSEY. Right. And the bill will be higher if we just have to operate in patching things together.

Mr. SKUBITZ. But at the same time, do not come down with that as an argument all the time. Now, my friend, Mr. Sullivan, he has money laying around down there—take it, some of you fellows and use it to get equipment. You are not borrowing it. L. & N., I am quite sure, they are ashamed to go down and ask for it after they give out to their parent company \$14.5 million in dividends last year.

I want to know if there is not something that can be done about getting cars into this area. Now, if I understand my friend here correctly, the present regulations of ICC stop you from sending cars down there, or even requesting other companies to get them down?

Mr. MARTIN. One qualification. If another railroad carrier is willing to supply cars, there is a possibility of requesting exemptions from the ICC.

Mr. SKUBITZ. Well, is it not the function of AAR itself to turn to its membership and say, "Look, so-and-so has a problem over here, can you not help out a little?"

Mr. MARTIN. We do that.

Mr. DEMPSEY. We do it.

Mr. SKUBITZ. Well, let us see that you do it this time.

Thank you, Mr. Chairman.

Mr. DEMPSEY. Thank you, Mr. Skubitz.

Mr. ROONEY. Thank you, Mr. Chairman.

Our next witness is Mr. James A. Hagen, senior vice president, marketing and sales, Consolidated Railroad Corp.

STATEMENT OF JAMES A. HAGEN, SENIOR VICE PRESIDENT, MARKETING AND SALES, CONSOLIDATED RAILROAD CORP., ACCOMPANIED BY JOHN L. SWEENEY, VICE PRESIDENT, GOVERNMENT AFFAIRS, L. J. BOSSLER, GENERAL SUPERINTENDENT, FREIGHT CAR UTILIZATION, AND JOSEPH FOLK, PH. D., DIRECTOR, STRATEGIC PLANNING

Mr. HAGEN. Thank you, Mr. Chairman. I have with me at the table several of my colleagues, Mr. John Sweeney, vice president of Government affairs; Mr. L. J. Bossler, general superintendent freight car utilization, and Dr. Joseph Folk, who is the director, strategic planning.

I would like to just submit my statement for the record and just hit a couple of the high points.

Mr. ROONEY. Your entire statement will be included in the record.

Mr. HAGEN. I think an adequate point has been made, but let me just reemphasize it that there is a difference between car utilization and car shortage in the sense that car utilization is a long-term problem, whereas car shortages reflect the business cycle, as has been discussed by the various witnesses.

Car utilization, of course, does impact the car shortages. The faster you turn the cars, the more cars are available for loading. So, improved utilization does help the car supply, but it will not eliminate peak traffic movements and the resulting car shortages.

I think a couple of interesting statistics—which are in the statement, are basically that car utilization has not improved very much in the last few years. From the time period 1971 to 1978 it has been rather flat. There have been several items proposed to improve utilization as we have gone along. There has been, for example, the ACI scanner situation that was discussed and there have been major computer systems that have been developed by various roads. I think that my only comment on that is that these items—some of which are very useful, like the heavy computer application, require a great deal of disciplined input, and that one system does not in itself solve the problem.

We also have another item here, and I would like to make this point before I turn specifically to ConRail, and that is that car utilization is really a symptom of the many complex problems in the railroad industry. The condition of the rail physical plant, the locomotive supply, labor work rules, the price that is received for moving cars all impact car utilization are the end result of the many tradeoffs between railroads and their customers regarding profitability, peak demand, storage charges, and car assignment.

My statement discusses at some length some of the items that ConRail has undertaken to improve their car utilization, and let me just hit some of the major categories. As I say, the materials are in the record.

The first is improvement in ConRail's physical plant through track and yard rehabilitation, which is expected to provide improvements in utilization system wide. Paradoxically, in the meantime, while it is going on, it retards good utilization because you have your yards torn up and you have your main lines blocked.

We are improving the condition of the car fleet by intensifying our heavy, and medium, and light repair of revenue freight cars.

And the third program is defined as improving the management of the car fleet. We are decentralizing the car distribution organization by establishing nine car management systems; and we are enhancing what we call our "TAB" system, which is our transportation and billing system, so that we have better records. We are improving the discipline of our field inputs so that we do not have a problem with missing the data when we go to analyze the needs. And we are expanding the network planning, improving our locomotive availability, and installing car classification capabilities at our major yards.

I would just like to finish by making a couple of suggestions, perhaps, of things that all of us can do, the railroads, the shippers, and the government working together can do to improve utilization and increase the car supply.

Shippers can insure that all cars they release are clean and damage free. For example, you can take a \$35,000 freight car, and if somebody pokes a hole in the lining with a fork lift truck, or knocks the door off in trying to open it, they have rendered that car out of service and useless. It is illegal, for example, to release a dirty car. But you cannot go look in every car when you get it back, so therefore we have this problem of policing it.

I think the shippers should be encouraged to supply their own speciality cars, for example, they do supply tank cars; and there may be an opportunity here for some of this standby grain service if some of the companies would care to provide their own.

I think Mr. Dempsey expresses a lot of my sentiment as far as the ICC rules. For example, they tend to hinder car allocation, and often tend to hinder utilization. I think that some of the rules of returning the empty cars always worsen the problem of the two-way haul. Eastern carriers, such as ConRail, often have such a sharp imbalance of traffic received from the western carriers, versus the outbound haul. We are working diligently with the western carriers on a program to reload more western ownership, rather than ship these cars back empty, which does not help Con-Rail or the western roads.

There is another area where Government action might be useful. For example, the Canadian Government is acquiring covered hoppers for peak demand in grain traffic. The Wheat Board of Canada has acquired 4,000 covered hoppers which are allocated to railroads and used solely in these peaks in the export grain business. So, there is a case where some other group meets the peak, not the railroad. Perhaps we could do this, or we could meet it through a railroad car company, such as Trailer Train, establishing more pools. Railbox, for example, has been an experiment that has worked very well.

And finally, the Government research efforts should be continued, such as the software research, systems analysis; and the hardware research, such as the track work at Pueblo.

So, we realize the importance of this car utilization in an effort to meet the needs of our customers. It is in our best interest, of course, to have a fleet that is capable of carrying as much tonnage as we have to generate the kind of cash that is necessary to do the heavy rehabilitation job that we have before us. I think we must realize, though, that car supply is tied directly to earnings. If the

railroad earnings remain at inadequate levels, major railroads will not likely launch major acquisitions or car-building programs. They cannot afford to have the luxury of a standby capacity just to meet peak demands.

I think that ConRail can achieve the goal of improvement in car utilization. I do not think that is something that the ICC can legislate for us, but I think that it is a program that we are all undertaking with all due speed.

[Mr. Hagen's prepared statement follows:]

STATEMENT OF JAMES A. HAGEN, SENIOR VICE PRESIDENT, MARKETING AND SALES,
CONSOLIDATED RAILROAD CORP.

INTRODUCTION

A recent article by *Modern Railroads*, a trade journal of the rail industry, state that freight car utilization is like the weather—everyone seems to talk about it, but no one seems to be able to do anything about it. I welcome this opportunity, Congressman Rooney and other distinguished Representatives, to discuss this most difficult subject, and in particular tell you what programs are underway at Conrail to improve utilization of freight cars.

First, there is often a great deal of confusion about the difference between freight car utilization and freight car shortages. Utilization is defined as a railroad's ability to use a vital asset, namely a freight car; this ability is often measured in number of loaded trips per year per car, or number of miles a car travels per day. Car shortages are the result of a railroad's ability to match supply and demand; this demand can have seasonal peaks or peaks of economic cycles, while supply is a function of many factors, including car builders' capacity, repair shop capacity, constraints on reusing cars belonging to another railroad (foreign cars), detention time at shippers, and the railroad's own efficiency.

Both car utilization and car shortages are currently critical problems for the rail industry. However, car utilization has been a long-term problem, while car shortages reflect business cycles, with the current shortages exemplified by peak grain movements and a simultaneous end of the 1975-76 recession, coupled with large backlogs of orders at car builders. Car utilization, of course, impacts car shortages, since improved utilization would provide an effective increase to the total car supply. Improved utilization, however, would still not eliminate peak traffic movements and the resultant temporary car shortages.

INDUSTRY TRENDS IN UTILIZATION

The record of car utilization in the U.S. rail industry is not good. Using the measurement of loaded trips per car per year, utilization on a national level has fallen from 19.8 trips per year in 1969 to 16.5 trips in 1977, a drop of 17 percent. The average length of haul in the industry has increased, and freight cars are much larger in capacity, but the ratio of loaded-to-total mileage has dropped as has trips per year. This lack of improvement is not confined to one railroad nor to one area of the country. The profitable as well as bankrupt railroads show the same record, namely the absence of any clear improvement. What makes the utilization problem so much more severe is that the cost of a freight car has doubled during the 1971-78 period.

Part of the railroads' decline in utilization is their on doing—namely, railroads agree with shippers to install more specialized, one-way equipment, and therefore lose the benefit of a back-haul from "free-running" equipment such as plain box cars and gondolas. Other factors include restrictions on the re-use of foreign cars. While these rules are intended to protect the equity of the railroad owning the cars, these restrictions encourage the empty return of cars, depressing utilization.

MAJOR ATTEMPTS TO IMPROVE UTILIZATION

In the past 10 years, railroads have explored several areas in hopes of major advances in car utilization. One area was in the use of hardware to read car numbers as the car passed by an optical scanner, while another area was in computer systems to help distribute freight cars.

The hardware to read car numbers involved the use of a label of color-coded bands affixed to the side of each freight car. After many years of testing, however, problems of label readability and label maintenance were never completely solved, and the industry voted last year to discontinue this project.

Another popular area was in the development of computer systems to distribute cars. Many different railroads undertook various programs to develop their own systems. Major developments were Southern Pacific's TOPS (Total Operating Processing System), and Penn Central's TABS (Transportation and Billing System), while other railroads developed systems tailored to their own needs. Much has been said about TOPS, TABS, and other sophisticated computer systems, but in my opinion, the results are at best "mixed". For example, the utilization statistics I have seen do not show any significant differences for railroads with TOPS, as a whole, versus railroads without TOPS. An experiment in the industry, supported by the Federal Railroad Administration, should provide a strong indication of the long-term benefits of TOPS. This experiment is an extension of TOPS known as "car scheduling" which is a \$5 million project by the Missouri Pacific supported by the FRA. I would expect to see some conclusions of this experiment within one year.

A NEW PROGRAM TO IMPROVE UTILIZATION

I have mentioned hardware to read car numbers and computer systems to distribute cars. Since neither of these projects have proven to be (at least not yet) a cure-all to the industry, the Association of American Railroads, the Federal Railroad Administration, and representatives of shippers formed a task force in late 1974 to study the problem of utilization. I am currently Chairman of the Steering Committee of what is known as the AAR/FRA Car Utilization Program. We are now into Phase II of this program, which will last beyond 1980. I think we have uncovered many small areas of possible improvement and have in progress many promising experiments. There is not, however, any indication of finding a single *one solution* with huge payoff to this multi-faceted problem.

Before turning specifically to Conrail, I would like to emphasize the point that car utilization is really a symptom of many different complex problems in the railroad industry. The condition of a railroad's physical plant, locomotive supply, car repair facilities, and labor work rules all impact utilization. In fact a company's record on car utilization is the end result of making many economic tradeoffs between railroads and their customers regarding expected profitability, peak demand, storage charges, and car assignment.

CONRAIL'S UTILIZATION IMPROVEMENT PROGRAM

Conrail's latest Five-Year Business Plan includes a challenging and demanding goal for car utilization improvement. That goal is a 24 percent improvement over a 1976 base.

In considering Conrail's car utilization program, it is important to note that between 1973 and 1976, car utilization on Conrail's predecessor railroads fell about 10 percent. The year 1973, which was a peak traffic year, was the year used by USRA in their Final System Plan, issued in 1975, on which a 28 percent improvement goal was targeted for Conrail. Thus Conrail, through no fault of its own, started out 10 percent behind the USRA projection, and would have needed a 38 percent leap to match USRA's original goal. This has been judged infeasible. Instead, Conrail projects a 24 percent improvement over the lower base—still a sizeable improvement. USRA has acknowledged the need to lower its expectations, and now projects independently a utilization improvement goal for the next five years closely in line with Conrail's own projections.

What is Conrail's record since 1976? With coal strikes, ore strikes, longshoremen's strikes, critical locomotive shortages, two severe winters, and the Johnstown flood, the usual measures do not show progress in car utilization. In 1977, utilization was below 1976, but if the abnormal events such as the severe winter and the strikes are excluded, utilization remained essentially unchanged. Our current (1978) levels of utilization are tracking on 1977 levels. The last few weeks we have exceeded our 1977 performance, as traffic has exceeded 1977 levels, which is encouraging. With improved locomotive supply, deliveries of new freight cars, and continued improvements to our physical plant, we hope to better our 1977 record.

The 24 percent utilization improvement target for Conrail should generate a cost savings, in 1978 dollars, of about \$325 million for the five-year period. This improvement program can be divided into four major categories. First, improvement to Conrail's physical plant through track and yard rehabilitation is expected to provide improvement in utilization system-wide. Next, improving the condition of the car fleet by intensifying our heavy, medium, and light repair operations should yield improvement in utilization. A third program is defined as "improving the management" of the car fleet. Included in this category are projects such as the freight car Clearinghouse, decentralization of the car distribution organization by establishing 9 car management centers, and enhancements to Conrail's existing TABS system,

which will be discussed below. The fourth category is denoted as "improved operating effectiveness." This includes expanded network planning, an extensive program to revamp our terminal operations, improved locomotive availability, and installing automatic car classification capability at major yards.

These four major categories sum to a 24 percent improvement in utilization.

I mentioned earlier the development of TABS, TOPS, and other computer systems. In 1975, a consultant to United States Railway Association recommended that Conrail install an operating control system such as TOPS. In 1976 Conrail began carefully reviewing this recommendation by forming a task force of experts throughout the industry. This task force concluded that TOPS could have benefits to Conrail, but that the cost would exceed \$60 million and the time frame would be four years or more before any discernible benefits would be realized. Most importantly, the fundamental prerequisite of TOPS is what is known as *field discipline*, which takes two forms; first, the ability to report all events happening to a freight car in a timely and accurate manner, and second, to carry out in the field all instructions emanating from the central system pertaining to a freight car. Considering the amalgam of railroads that had gone into the formation of Conrail, it was obvious that to launch into a controlled TOPS network without first improving field discipline would be a mistake. Hence Conrail is committed to achieving short-term utilization benefits from improvements to its existing TABS system, and then, in about 3-4 years, begin implementing TOPS. USRA, in their annual report to Congress on Conrail's performance, has termed this decision "wise."

The high cost and long payback of TOPS, plus the fact that Conrail's field discipline must be greatly improved before such a controlled system as TOPS can be installed, make it imperative that Conrail realize short-term benefits. Primarily, this will be based on improving TABS. This analysis was presented to our Board of Directors last month. The cost to expand TABS is \$7 million over 2½ years. Simultaneously, Conrail will expend an additional \$7 million for a much-needed yard information and control system, similar to the system being installed on Southern Railway. The benefit from TABS enhancements and the yard information system is estimated to be \$88 million over the 1979-82 period. In approximately 1982, pending the outcome of experiments on railroads with TOPS, Conrail anticipates it will begin converting to the use of TOPS.

WHAT MORE CAN BE DONE TO IMPROVE UTILIZATION?

Let me now cite several ways of how railroads, shippers, and government can work together to either improve utilization or increase car supply. Shippers can help by insuring that all cars they release are clean and damage free. A new freight car costing over \$35,000 can be put out of service on its very first trip if a fork-lift truck punctures the lining or damages the car door. It is illegal to release a dirty car, but as a practical matter, railroads cannot police every shipper. Also during periods of peak shortages, the free time allowance of two days for unloading a car should be reduced to one day. I think shippers should also be encouraged to acquire their own specialized cars. Tank cars are almost exclusively owned by shippers, and shipper-owned covered hoppers and open hoppers are increasing. For gondolas and some types of equipped box cars, private car ownership could be greatly increased.

The government can help in several ways. First, ICC rules, which strive for equity among all shippers in car allocation, often hinder utilization. For example, during peak grain movements, ICC restrictions on the number of covered hoppers which can be used in unit train service reduces the total amount of grain which can be moved. At Conrail, for example, our covered hopper cars in unit train service average twice as many trips per month as cars in non-unit train service. Second, rules requiring the empty return of cars after unloading prohibit any hope of establishing two-way movement, which is needed to improve utilization. Eastern carriers such as Conrail often have a sharp imbalance of eastbound traffic received from Western carriers, versus westbound traffic originated on our lines. Hence we depend on the re-use of these cars, belonging to Western carriers, to handle our loads back to these carriers. Conrail is working with Western railroads on a program to reload more Western ownership box cars, rather than shipping these cars back empty, which doesn't help Conrail or these Western railroads.

Another area where the government might help is to explore the example of the Canadian government in acquiring covered hoppers for peaks in grain traffic. The Wheat Board of Canada has acquired 4,000 covered hoppers which are allocated to railroads and used solely to ease peaks in export grain traffic. Our government could either acquire cars directly, or perhaps provide assistance to a railroad car company such as Trailer Train to establish a pool of cars.

Finally, the government-sponsored research efforts I have mentioned earlier in my testimony should be continued. This includes both "software" research such as systems analysis, and hardware research such as the test track at Pueblo, Colorado.

CONCLUSION

Conrail certainly recognizes the importance of improved car utilization, and has extensive programs underway to achieve improvements. The record in the industry, however, is not encouraging, since there is not a panacea to provide benefits to all railroads. Car utilization consists of performing ordinary railroad functions extraordinarily well. This includes having the physical plant, shop capacity, locomotive availability and car fleet in suitable condition to move cars without delay. It also includes shipper cooperation, advance loading information, and a regulatory environment conducive to effective car distribution.

Some types of freight cars are not being acquired because of low profitability projections. The profitability issue reaches much deeper than just utilization, and involves problems such as work rule reform and below-cost rates. After two relatively poor traffic years, railroads have now begun to increase car orders in hopes of a strong 1978, but periods of car shortages will undoubtedly reoccur. Car supply is directly tied to the earnings of the industry—if railroad earnings remain at inadequate levels, major railroads will likely not launch major acquisition or car building programs. The industry cannot afford the luxury of having standby capacity in their freight car fleets, used only for peak periods of demand.

In conclusion, I believe Conrail can achieve improvements in car utilization. I do not believe this improvement can be legislated, but will be realized through many different programs, starting with programs to improve the health of the industry.

Thank you again for this opportunity.

Mr. ROONEY. Thank you very much, Mr. Hagen. I still have the foolish confidence in ConRail that it will make it. I think it is the only ball game in town and we have to work with you as closely as we possibly can. As chairman of this committee I have always tried to insulate myself from your organization in Philadelphia because it is a private-for-profit organization and I hope that Congress will not involve itself in some of the decisions that are made by your board.

I have always made it a point not to become parochial in this job of mine as chairman of this very important committee, but talking about car utilization, I think 2 weeks ago you were fined by the ICC in the amount of \$2.4 million for something like 4,000 incidents; is that right?

Mr. HAGEN. Yes, sir.

Mr. ROONEY. 4,000, and half of the 4,000 occurred in the chairman's district.

Tell me what happened in the Allentown yard?

Mr. HAGEN. Well, I will keep my remarks very brief on that issue in the sense that we are fighting that in a court case. So, therefore, very truthfully, I do not want to discuss it in any great length.

Mr. ROONEY. Under those circumstances, do not comment.

Mr. HAGEN. All right.

Mr. ROONEY. The gentlelady from Maryland is recognized.

Ms. MIKULSKI. I hope the other 2,000 were not in my district, but it certainly seems like it sometimes.

First of all I would just like to say this, Mr. Hagen, because I find just even in the general route and tempo of discussion from you and other witnesses, this seems almost like an intellectual discussion, like we are trying to solve a puzzle. Freight car shortages have been with us for 40 years, and they will be with us 40 years from now. Quite frankly, those of us who represent the big

cities in the Northeast corridor view this as a life-and-death struggle in terms of our economic development.

Let me be quite precise because what I want to create here is a sense of urgency, whether it is with AAR, or yourself, or anyone connected with this.

No. 1, my shippers are having to turn to other modalities because of the unreliability of rail service. And in Baltimore, in many instances, that specifically is ConRail. Now, what does that mean when they have to turn to trucks?

First of all, it goes right to the heart of Baltimore's economic base. We do not want to be in the same condition that some of the other big cities are. I find, No. 1, that many of my business people are threatened with extinction because of lack of railroad cars—whether it is a shipper like Mr. Rukert who depends on freight forwarding; or, No. 2, General Motors, that employs several thousand people, and is rail-dependent on its raw materials. We need those raw materials, or else General Motors is going to go down the tube and Rukert is going to go out of business; and I can turn my port into some great big lily pond that is not going to be worth one damn.

The second thing is that we find we cannot attract new industry to Baltimore because the very first thing that they ask us is, "How is your transportation system," and we say, we are a rail hub—well, they laugh at that. They say, "How is your freight car situation; how do you coordinate with Amtrak; what are you doing about something called the Baltimore Tunnel?"

It all comes down to, if I need my railroad cars, am I going to get them? Our mayor is an honest man, he will not make that type of commitment.

So, when we speak now about this I cannot convey to you a more intense sense of urgency than the fact that the railcar shortage goes to the heart of the economic development of a city of over 1 million people.

I really do not want us to continually be looking to Federal bailouts, or handouts. I do not want Baltimore City to be a grant junkie. I want people to be working in real jobs, doing real things.

I do not mean this as a lecture to you. I am just telling you how tough it is when General Motors is in that kind of situation.

So, when you say your car utilization has not improved I want to know why. Why have we not been able to put in ACI? Why have we not been able to move management to be more aggressive? When I complained to you one time there were 3,000 cars sitting around Bayview railyard. And after the complaint, within 72 hours 1,800 of those cars moved. Why did we have to wait 5 weeks? So, without upbraiding, lecturing, or hazing, I want this to be a real priority of ConRail. I am not always sure fines are the best techniques to get you to move. But, you have to move if you want the Bostons, Baltimores, and Philadelphias to survive.

You know, Carter talks about his urban strategy, damn it, this is the urban strategy. With good railroads and adequate cars we do not need Urbank or whatever others things Stu Eizenstat dreams of—and I mean that very sincerely.

So, whatever you can tell us about what are you going to do, and what your timetables are, would be very helpful to me.

Mr. HAGEN. Let me begin by saying that I agree with the general proposition of promoting the rail service and the volumes in that area because it is there that our lifeblood is, in the sense that these are the major points that we get freight traffic on. The traffic we pass up, that goes to other modes, is dollars that we do not have to do the things that are necessary, that we need to do. So, we are working diligently to fix up the track in that area, to build the facilities.

Now, let me just give an example in the Baltimore area. We recognize the problem in that area there of the congestion, because of Amtrak and ourselves, and problems on the Northeast corridor. So, we established our first freight car management system where we try to decentralize a little bit, to get people on the ground to deal with the problems. So, in the last few months, we now have people that are dealing with that whole area, the Dovers, the Baltimores, and headed up toward Philadelphia to try to "uncongest" that, if I might use that term; to really deal with that problem.

Now, I do not say that we have any panaceas or notions that we are just going to fix it permanently with those kinds of changes, but it is a problem where we put in a cleaning facility. We put in this management systems center to deal with the more on-the-ground-type distribution.

Ms. MIKULSKI. What is a management system? Is that nine guys sitting around; is it a computer; what is it?

Mr. HAGEN. What it is is a little of both in the sense that you can have two types of systems. You can centralize it.

Ms. MIKULSKI. One that works, and one that does not.

Mr. HAGEN. There you go. Some work a little, and some do not work at all.

But what we tried to do is to have more local management attention on what the people are doing so that we do not have those buildups of cars that you talked about; that is the kind of effort we are making.

I think another very important issue that is helping right now is, we had a locomotive shortage in the spring that was probably unparalleled anywhere. But we went out at that time and said to both General Motors and General Electric, "How many locomotives can you build for us right now," and the number that came back was 217—so, they built them.

We said to all the major repair facilities, "How many locomotives can you repair for us right now?" We got that number, and we put them in those shops. Our fleet has gone from a deficit right now—we have a little dip in traffic—to where we are in a surplus position. So, we have an opportunity, I think, this fall, to really handle a lot more freight than you saw us handling last spring.

Ms. MIKULSKI. So, we can look forward to improved service?

Mr. HAGEN. Right. It is not going to be magic, but it is going to be improved.

Mr. ROONEY. The gentlelady's time has expired. The coal miner from Kansas is recognized for 5 minutes.

Mr. SKUBITZ. Thank you, Mr. Chairman.

Mr. Hagen, I do not have any questions to ask, but how long have you been in your present position with ConRail?

Mr. HAGEN. About 1½ years.

Mr. SKUBITZ. About 1½ years.

Well, I want to say this, I am not coming back to this committee, I am retiring from the Congress of the United States; but I think that you ought to understand, and those that run ConRail, that you have had no greater defender than the chairman of this subcommittee, Fred Rooney.

Fred Rooney really was one of the moving forces that helped in bringing ConRail together out of seven bankrupt railroads.

Mr. ROONEY. I will yield to the gentleman for an additional 10 minutes.

Mr. SKUBITZ. Well, if I did not believe it, I would not say it, believe me. He is a fellow that has really worked all through the time here to strengthen the rail industry and to strengthen Con-Rail.

I want to go back a few years, and I tell you this, that when this whole problem of the bankrupt railroads came into existence there were many Members of Congress—including this Member—that were willing to go with the dismantling of the whole system and the selling off, which would have been tragic, I admit at this time, to the area of the country that ConRail now serves.

But it was really—and I say this most sincerely—because of the confidence that some of us had, that held their belief in Fred Rooney and some of our other friends that were on the other side of the aisle at that time, that we went along with the creation of ConRail.

I do not know whether you know it or not—I am sure that you do—that really the Department of Transportation at that time was ready to dismantle the whole system; and it had plenty of support. But, as I say, as far as this Member is concerned, if it had not been for fellows like Fred Rooney—who is now head of this committee—and fellows like Brock Adams, that perhaps this whole area of the country would not be served as well as it is today.

My hope is that ConRail will do all in its power to deserve the confidence that Fred Rooney has placed in ConRail. I cannot think of anything less than that, that your organization can do.

Thank you, Mr. Chairman.

Mr. HAGEN. Mr. Skubitz, that is a very fine statement of just where we are, thank you.

Mr. ROONEY. I do appreciate those very fine comments, Joe. You are going to be missed greatly next year, and I want to take this opportunity to thank you for all the great help you have been.

Mr. SKUBITZ. Well, Mr. Chairman, you would not get it unless you deserved it.

Mr. ROONEY. I have just one final question, Mr. Hagen. I believe ConRail recently announced a special freight rate for filling empty back-haul cars, is that correct?

Mr. HAGEN. Yes, sir.

Mr. ROONEY. I wonder if you can describe this program and estimate what effect you expect this to have on car utilization.

Mr. HAGEN. All right. We are located in the Northeast, where we are the predominant terminal railroad of much of the rail freight. For example, the canned goods and the lumber all move into our territory in boxcars; and the prevailing direction now is westward

empty—eastward loaded. Our effort has been to say, why should we either attempt to find a car, either ours or Railbox's, or some other car and send it back loaded in the other direction to come back empty. So we have made an effort to balance the flows.

It has one other added feature, this is what the trucks do. They price their services so that they run loaded both ways. It gives them an economic advantage, and we are trying to emulate that by saying, we will load them both ways, make the boxcar traffic more profitable. Say, for example, a boxcar comes into the East for \$800. If we can load it back the other way for a load, say, for \$500, it makes that piece of equipment much more attractive to industry.

Mr. ROONEY. Thank you very much.

Ms. MIKULSKI [presiding]. The next witness will be Mr. Alan Dustin from the Boston & Maine Corp.

STATEMENT OF ALAN G. DUSTIN, PRESIDENT, BOSTON & MAINE CORP., ACCOMPANIED BY WILLIAM F. RENNICKE, ASSISTANT TO THE PRESIDENT

Mr. DUSTIN. My name is Mr. Dustin, I am president of the Boston & Maine Corp. I have with me today Mr. William Rennie, my assistant. I do have a prepared statement which I would like to submit in total for the record, together with certain attachments; and I would like to have the opportunity to touch on certain pertinent parts of this submission which we believe are important to the Boston & Maine and relate very heavily to the problem that is the point of discussion today.

The first part of my comments relate to incentive per diem, which was an increase, an artificial car-hire factor imposed, or mandated by the Interstate Commerce Commission in 1970.

The goal of incentive per diem was set forth—and I quote from the Ex Parte 252:

The establishment of an incentive per diem charge which will provide just and reasonable compensation to freight car owners, contributes to sound car service practices including efficient utilization and distribution of cars, and encourage the acquisition and maintenance of a car supply.

The result of this plan, which is now referred to as incentive per diem, which appeared to be theoretically sound, has failed dismally when applied to the real world of daily railroad operations.

If this appears to be picking on the Interstate Commerce Commission, as others might have done today, it is.

Ms. MIKULSKI. Mr. Dustin, your testimony is quite comprehensive. Are you going to summarize it?

Mr. DUSTIN. I intend to cover important parts of it and skip others. I would like to make the pertinent remarks.

Ms. MIKULSKI. First I am going to ask unanimous consent that your testimony, as submitted, be submitted for the record in to so that we will have a complete record of your remarks and you can feel assured that then they are a part of the permanent record. If you would go over the pertinent points, it would be appreciated.

Mr. DUSTIN. All right. Well, incentive per diem, as I mentioned, was instituted by the Interstate Commerce Commission to fulfill certain goals. One was to insure a just and reasonable compensation for freight car owners.

Now, that just and reasonable compensation, we feel, has been more than just and reasonable. To point that out I have stated an example on page 3 of my submission which compares the actual cost, the carrying charges, and the wear-and-tear of a car over a period of time, and the actual income that somebody would receive through use and ownership of that car over a period of time; it shows that the return on investment if off-line all the time would be something in the neighborhood of 37 percent.

In 1978 we estimate that B. & M. will have approximately a \$9 million outflow of cash for car-hire payments. This is better than 10 cents out of every revenue dollar which we expect to take in. As a comparison to this, what we consider excessive cost for freight cars under incentive per diem, I would like to have you for a moment consider Railbox. Railbox is a free-running, truly free-running box car which is used throughout the country without car service rules.

During 1978 the Railbox fleet will be increased by approximately 25 percent. Initial plans indicate that there is an additional 25 percent increase in equipment destined for next year. This substantial increase in these free-running freight cars was made by the railroad industry without any kind of incentive or penalty payments. The daily rate is about \$12 for a new railbox car, which compares with a rate for a comparable car under incentive per diem of about \$24 or \$25.

My point is that the rates for incentive per diem cars are not just and reasonable, they are excessive. Continuation of this incentive rate through the Interstate Commerce Commission mandate, I feel, will in the long run have a disastrous effect on the cost structure of the railroad industry. We are in effect exchanging a \$5 a day car for a \$20 or \$25 a day car, which has some very insidious implications.

Just for example, in the month of January, 1978, we investigated certain movements made in new incentive per diem equipment. We found some very disturbing facts. 72 percent of all gross freight revenues and demurrage went to the freight car owner, the freight car foreign owner for the use of their equipment. That left only 28 percent of gross revenue and demurrage for the Boston & Maine for the actual transportation of the commodity. Simple economics dictate that this situation cannot go on forever.

The second section of the goals of incentive per diem imposed by the Interstate Commerce Commission in 1970 was to contribute to sound car service practices. We have had a good deal of discussion today about the car service orders by the Interstate Commerce Commission; and car service orders to some extent by the AAR, which we feel are counterproductive to good utilization of equipment. Presently both the AAR and the ICC car service directives, which control the movement of these so-called free-running cars, have become so restrictive that we are almost completely denied the opportunity for bidirectional loading of these freight cars.

We need these bidirectional loading opportunities to generate sufficient revenues to cover the high cost of incentive per diem. For example, in 1977, 46.5 percent of all movements on the B. & M. were empty movements. This means that we are picking up almost one empty movement for every loaded move we receive on our line.

To my knowledge, there is no other transportation industry in the world that can exist under this type of a situation, with almost a 50 percent empty movement.

The causes of this unfortunate situation are quite complex, and they are spelled out in a letter which I sent to Interstate Commerce Commission Chairman O'Neal, which I would like to also include as a part of my submission for the record.

Ms. MIKULSKI. Without objection, it is so ordered.

Mr. DUSTIN. One other element of the so-called goals of the incentive per diem which was instituted in 1970 was to perpetuate, or to work toward the efficient utilization and distribution of cars. Exhibit A, which is attached to my testimony, shows the average loaded trips per year for the years 1970 through 1976. Since the inception of incentive per diem average trips for plain box cars have decreased 31 percent, from 17.3 trips per year to 11.9 trips per year. So, obviously, incentive per diem has not improved the turnaround time and the utilization of equipment.

Exhibit B discloses that the average miles a car travels each day has increased only 6 percent since the inception of incentive per diem; in the eastern district of the United States it has actually decreased by 0.2 percent.

Likewise, incentive per diem has not encouraged the acquisition and maintenance of an adequate car supply. Exhibit C shows that since the inception of incentive per diem the fleet of plain box cars, which is the type of equipment that earns incentive per diem, has decreased by nearly 92,000 cars, or over 25 percent since 1970.

To my knowledge no agency, other than the GAO Office has carefully analyzed the effects of incentive per diem on freight car utilization in the United States. It has been in effect 7 years, and obviously, from the statistics, it has not fulfilled its goals. In spite of that, there appears to be a continued move within the ICC to enlarge, or apply incentive per diem on box cars on a 12-month basis, instead of 6 months, as it is today.

We on the B. & M. have done everything possible within our resources to expedite the movement of traffic, to remove the application, or the onus on incentive per diem to the extent that we can within our control, but the car service directives actually, instead of creating an incentive, just penalize us for handling cars if we handle them efficiently. In spite of the fact that the B. & M. has experienced 20 years of net losses and has been in bankruptcy since 1970, has passed up the opportunity to become a party to ConRail, and has received no Federal funding whatsoever, we have improved substantially our tracks to better operate at the greater speed over our railroad. We have purchased and rebuilt locomotives to the extent that we now have a surplus of locomotive power and some under lease. We have reduced our bad order ratio, which presently is better than the industry average for freight cars. We have done a number of other things internally—again I mention, without Federal help, although we have a request in for some. But despite this fact we still must pay this penalty for per diem, incentive per diem on freight cars which we use.

If incentive per diem has not worked, what will? One only has to look at the tremendous success, again, of Railbox to see what action the industry should take. On the Boston & Maine we are

able to reload almost 95 percent of all Railbox cars which terminate on our line. This compares with an empty ratio of 46 percent for the so-called general purpose cars that are controlled under Car Service Directives through the Interstate Commerce Commission. The Railbox cars are truly free-running cars, and it is the type of utilization, I believe, that we should exploit. The important thing to realize, there is no incentive per diem on those cars. And yet, they are highly successful in utilization.

Although I would hope that, if Railbox continues to expand, there would be no need for the Government or any other agency to become involved in more regulation over the use of cars, I certainly believe that a railbox type of concept has a great deal to offer to solve this problem of ours. I think we have enough box cars today in the country, if they were used properly.

One very major concern I have, which relates to the incentive per diem continuation or enlargement is the fact that we are working on a very limited cash flow. Our cash flow on the B. & M. for the past 3 years has been flat. If we have to fact additional surcharges through incentive per diem, we are likely to become one of the first railroads in the near future to become liquidated.

I thank you for the time that you have given me this afternoon.
[Mr. Dustin's prepared statement and attachments follow:]

**STATEMENT OF ALAN G. DUSTIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER,
BOSTON & MAINE CORP.**

I am deeply concerned about the marked decrease in freight car utilization over the past several months. This decrease appears to be a more rapid acceleration of the worsening freight car utilization which has plagued our industry since the early 1970's. The causes for this acceleration are many. I believe that the railroads themselves, as well as the Interstate Commerce Commission (ICC), the Association of American Railroads (AAR), and the shipping public, have all contributed to the major crisis that we are facing today.

In the late 1960's and early 1970's, transportation theoreticians representing various segments of the transportation industry, developed what they thought was a unique approach to improving freight car utilization. Their plan, and it was one that I suspect had worked effectively in other segments of our economy, was to increase artificially car hire costs through an incentive or penalty rate. The result of this plan, incentive per diem, which earlier appeared to be theoretically sound, failed dismally when applied to the real world of daily railroad operations. In Ex Parte 252, the goals of incentive per diem were set forth as "the establishment of an incentive per diem charge which will provide just and reasonable compensation to freight car owners, contribute to sound car service practices (including efficient utilization and distribution of cars), and encourage the acquisition and maintenance of a car supply"

Let us consider for a moment several of the essential elements of the phrases I have just quoted from Ex Parte 252. The first of these is "insure just and reasonable compensation to freight car owners". There certainly is no doubt that compensation at the high levels provided by incentive per diem meets all minimum tests of reasonableness. In fact, in many instances, it goes beyond being reasonable to being excessive.

Let's for a moment consider what this reasonable compensation has done for the industry. While not totally a product of the cost of car hire, railroad Net Railway Operating Income for the industry in 1977 dropped to its lowest point in 45 years at \$346 million. The industry's rate of return on investment declined to 1.26 percent, which is a rate that is lower than the 1932 depression year of 1.37 percent. Comparing this to the motor carriers' rate of return of 19.23 percent, the water carriers' rate of return of 16.03 percent and the pipelines' rate of return of 7.59 percent, we find that the railroads have not fared as well as any of our regulated or unregulated carriers. Possibly, this may be an indication that it might be more reasonable and prudent to utilize better our present investment in freight car fleets rather than

spend money on new cars while over 116,000 older, less expensive cars remain idle for lack of repairs.

Let's examine the reasonableness of the rate of return on a standard \$35,000 70-ton 50-foot XM box car. If the car is off-line 100 percent of the time, which I will admit is a rare occurrence, per diem, incentive per diem and mileage charges based on 50 miles per day, amount to \$7,843 per year. If you subtract from this the \$4,320 which represents the yearly return of capital and interest cost of the equipment and an estimated \$600 for maintenance, you find that the net spread between revenues and expenses is approximately \$2,923 per year. This amount, of course, decreases as the off-line percentage decreases. In order for one railroad to earn this attractive return, which amounted to 37 percent in the example I used, another railroad or segment of the industry must pay it. This is a point that too often escapes the proponents of incentive per diem.

In 1978, we estimate that the Boston and Maine will have approximately a \$9 million outflow of cash for car hire payments. This represents better than 10 cents out of every revenue dollar we will take in. I am positive that we are, in fact, contributing significantly to the high 37 percent return or conservatively the 30 percent return which is being earned by the railroads and others who purchase incentive per diem cars.

Consider, for the moment, RAILBOX. During 1978, the RAILBOX fleet will increase by approximately 25 percent. Initial plans indicate that there is an additional 25 percent increase in RAILBOX equipment destined for next year. This substantial increase in truly "free running" freight cars was made by the railroad industry without any kind of incentive or penalty rates. The daily rate of about \$12.00 for a RAILBOX car supported this substantial increase in equipment as well as the 10,000 cars already in existence. One could say that the \$24 a day rate for similar equipment covered by incentive per diem also would induce investment. The important question was, "Is the spread of approximately \$12 a day necessary?" I feel it is not and is only creating a substantial cash drain on the industry.

In addition to the \$9 million outflow that the Boston and Maine has, the composite number becomes larger very quickly when you look at the approximate \$343 million net car hire payment that ConRail made in 1977. This number is not very far from ConRail's loss before extraordinary items of \$367 million. Reasonableness is a hard word to tie down. I sincerely don't believe that to any great extent incentive per diem has increased railroads' desire to purchase new equipment. If investments are made at a \$12.00 per day rate for RAILBOX equipment, I believe that an incentive per diem rate that earns \$24 a day is basically unreasonable and unnecessary.

One additional point should be made. If incentive per diem was, in fact, such a great attraction to the railroad industry, then the majority of freight car investments would be made in this area. Looking closely at the statistics of cars ordered and built during the past several years demonstrates that there has been a much higher rate of construction of cars which do not earn the incentive rate, such as covered hoppers, specially equipped box cars, and cars used for the hauling of coal. Continuation of an incentive rate, which I feel is basically unreasonable, will in the long-run have a disastrous effect on the cost structure of the railroad industry. What we are doing is replacing \$5 a day cars with \$20 a day cars in ever increasing numbers. The Boston and Maine has already felt the effects of this disturbing trend.

In the month of January 1978, we investigated numerous movements made in new incentive per diem equipment. We found some very disturbing facts. 72 percent of all gross freight revenues and demurrage went to the foreign owner for the use of their equipment. 28 percent of gross revenue and demurrage went to the Boston and Maine for actual transportation of the commodities. Of the movements analyzed, in over one-third of the cases, the per diem and mileage charges accruing to the cars used in the movements were greater than the gross revenues and demurrage charges the Boston and Maine received. Simple economics dictate that this situation can not go on much longer.

Consider now the second section of the phrase, i.e., "contribute to sound car service practices". I am including for the record a copy of a letter I sent to Chairman O'Neal of the Interstate Commerce Commission on June 12, 1978. In my letter to Chairman O'Neal, I point out that it was clearly the intent of the incentive per diem establishing order that incentive per diem should be applied only to general service box cars used in "free running", unrestricted service. Specifically excluded from the applicability of incentive per diem was special assigned equipment governed by distribution directives which restricted their general use and usually resulted in one directional loading.

Presently, both AAR and ICC car service directives, which control the movement of these so-called "free running" cars, have become so restrictive that a situation now exists on the Boston and Maine where we are almost completely denied the opportunities for bi-directional loading of free running freight cars. We need these bi-directional loading opportunities to generate sufficient freight revenues to cover the high cost of the incentive per diem cars.

In 1977, 46.5 percent of all movements on the Boston and Maine were empty moves. This means that we are picking up almost one empty movement for every loaded move we receive on our line. To my knowledge, there is not another transportation system in the world that can afford to maintain this disproportionate amount of empty movements for loaded moves. This is not a local problem. To one degree or another, all roads have felt these effects. The loss of reloading opportunities has created a new form of economic malady we could call "the moving or rolling idle investment".

The causes of this unfortunate situation are quite complex and spelled out in more detail in my letter to Chairman O'Neal. The basic result of this is that each quarter the Boston and Maine sends approximately 7500 empty plain box cars to its eastern interchanges with the Maine Central Railroad at Portland, Maine and at the same time sends approximately 7500 empty plain box cars off its railroad through its western gateways at interchanges with ConRail and the Delaware & Hudson. This is a classic case of empty crosshauling and causes cars intended to serve shippers in New England to spend half their time moving anywhere from 800 to 1000 miles in an empty status. Of course, this has the detrimental effect of tying up needed box car capacity in empty moves.

The reason we have been denied the opportunity for bi-directional loading of these plain box cars is a direct result of the increasing number of car assistance directives and other car movement controls promulgated by the AAR and to a lesser extent the ICC. In addition to their very strict control over the freight cars, these directives have created an administrative nightmare in which our field car distribution personnel have an extremely difficult time keeping up with the type of equipment that they are allowed to assign to a particular shipper for reloading.

To give you an example of the type of a situation we have been faced with over the past months, I cite a case where a shipper received an inbound movement in a Southern Railway car and had an outbound load available to reload into the same Southern car for a destination in the Southern Railway territory. Because of AAR Car Relocation Directive 87, which controlled the Southern's equipment at that particular time, the shipper was not able to reload that car and the Boston and Maine had to pull it from the shippers dock and return it to the Southern Railway empty, a journey of almost 1000 miles.

Despite the fact that the use of this equipment is severely restricted, it is still covered under the ICC applications of incentive per diem. The general service box car of years past is now today's constructively assigned car. Some of these so-called emergency car assistance directives have been in effect for over three years, in particular Car Assistance Directive 527 (CAD 527) which is the subject of the letter that I sent to Chairman O'Neal.

Incentive per diem clearly has failed as a contributor to sound car service practices. The next phrase that I would like to call your attention to in the quote that I read you earlier is "including efficient utilization and distribution of cars".

Exhibit A, which is attached to my testimony, shows the average loaded trips per year for the years 1970 to 1976. Since the inception of incentive per diem, average trips for plain box cars have decreased 31 percent from 17.3 trips per year to 11.9 trips.

Exhibit B discloses that the average miles a car travels each day has increased only 6 percent since the inception of incentive per diem and, in the eastern district of the United States, it has actually decreased by .2 percent. Utilization measured in average trips per year for plain box cars or in terms of average daily car mileage, has not lived up to the high expectations and hopes of the proponents of incentive per diem. Likewise, incentive per diem has not encouraged the acquisition and maintenance of an adequate car supply.

Exhibit C shows that since the inception of incentive per diem, the fleet of plain box cars, which is the type of equipment that earns incentive per diem, has decreased by 91,999 units, or over 25 percent since 1970. While this type of equipment has been decreasing, other non-incentive per diem cars, such as covered hoppers, have increased substantially.

To my knowledge, no agency other than the Government Accounting Office has carefully analyzed the effects of incentive per diem on freight car utilization in the

United States. The ICC has never publicly conducted a post audit of the program which they wholeheartedly supported in the early 1970's.

The thing that worries me the most is, despite the disgraceful track record of incentive per diem since its inception, there appears to be a renewed interest in its use as a prod to make the railroad industry increase its purchase of new cars. As I stand in the center of my railroad, watching hundreds of empties go by me each day, both in an easterly and westerly direction, I must point out that, in my judgment, doubling, tripling, or quadrupling incentive per diem will have little effect on the poor utilization which has been a direct result of the restricted car movement practices which were instituted and perpetuated by various narrow-interest groups throughout the industry.

Incentive per diem has not been the prod it was intended to be for several reasons. First of all, few railroads, if any, are motivated by the cost of a particular car in the establishment of operating service plans or in the design of their overall operating strategy. One reason for this is that until a very short time ago few railroads knew what a particular car on their line cost on a day to day basis. Certainly, their car accountants knew the cost of the car, but very few of the operating people who manage the car and move it across the railroad system had much of an idea of the exact per diem rate assigned to a particular car. Secondly, railroads have very little control over the type of a car which is used in a particular movement. We have found that often many of our shippers receive inbound loadings one day in cars which carry per diem rates in excess of \$20 and on the next day they may receive a load in cars costing under \$5.

Another important factor which has diminished the effect of incentive per diem is the rationalization amongst the credit per diem railroads that their substantial fleet of incentive per diem cars can more than offset incentive per diem payments for foreign ownerships. I know for a fact that on the Boston and Maine because we are paying 10 cents out of every revenue dollar for care hire, we focus very closely on this particular element of our overall operating cost, but others who don't pay as much may not be quite as concerned.

An additional reason why there is a lack of response to per diem as an incentive to move cars is that it is difficult to muster a great deal of enthusiasm about something over which you have very little control. The substantial number of cars which are being empty backhauled across the Boston and Maine represent a movement over which we have very little control. We have done everything possible within our resources to expedite this movement, including substantial track upgrading, purchase of new locomotives, and the institution of run-through agreements. Still, despite this fact, we must pay this penalty per diem rate on the cars as they are being returned empty to their owners.

It must be realized that there are many factors of railroad operations that cannot be changed in the short run by increasing the cost of rolling stock. In the case of the Boston and Maine, for example, on branch lines where it costs us close to \$1,000 per day just to operate a local switcher, it is economically disastrous to provide daily service to remote, low-density locations, regardless of the per diem cost of the equipment that is sitting on the line. Likewise, it is beyond efforts of the railroads to promote better utilization of the portion of the car cycle which is controlled by the shipper. A car spotted at one of our shippers after 7:00 a.m. on Wednesday does not accrue demurrage until 7:00 a.m. on Monday morning. This gives the customer almost five free days of car time. On the other side, the railroad must continue to pay both per diem and incentive per diem for the use of the car. If this occurs during the incentive season, the railroad might pay as much as \$125 to a foreign car line for which it receives \$0 from the shipper.

If the theoreticians and supporters of additional increases in incentive per diem rates are to prevail, I see nothing but a further eroding of the financial health of the marginal and bankrupt railroads across the country as well as some of those that are considered strong. Exhibit D, which I included with my testimony, presents the current debit per diem payable for the bankrupt and marginal railroads in this country. It is not a coincidence that the bankrupt railroads of this country are also heavy deficit per diem railroads. Dollar for dollar, each increase in incentive per diem or other penalty charges which are developed is going to appear on the bottom line of the roads which I have listed.

If incentive per diem has not worked, what will? One only has to look at the tremendous success of RAILBOX to see what direction the industry should take. On the Boston and Maine, we are able to reload almost 95 percent of all RAILBOX cars which terminate on our line. It is truly the free-running, high utilization type of car that was intended by the supporters of incentive per diem. The important thing to recognize is that there is no incentive per diem on these highly utilized RAILBOX

cars. One possible alternative to RAILBOX would be a government or quasi-government owned fleet of truly free running freight cars. Although I would hope that, if RAILBOX continues to expand, there would be no need for the government or any other agency to purchase freight cars.

In addition to the expansion of a common pool box car fleet, either owned by the industry or owned by the government, I believe that the ICC could take action tomorrow which would substantially improve utilization of the plain box car fleet which has been so severely restricted through car directives. If the ICC were to rule that cars covered by railroad-initiated car directives which severely inhibited opportunities for bi-directional loadings lost incentive per diem, I doubt that many railroads would prod the AAR into initiating such directives.

As I pointed out in the attached letter to Chairman O'Neal, railroads that thrive on the car directives are having their cake and eating it too. They get what is essentially an assigned car and earn incentive per diem on top of it.

One remaining suggestion I have is that the substantial disincentive to repair bad order equipment must be reduced. During the second quarter of this year, there were over 118,000 bad order cars in the United States, with 53,000 of them being box cars. This represents better than one out of every ten freight cars in existence today. The majority of these cars could be repaired and returned to service with a minimum investment. Currently, industry rules under OT-37-B do not provide enough economic incentive for railroads to spend money to repair cars out of service. This, coupled with the fact that there is such an attractive return in purchasing new cars that qualify for incentive per diem and the investment tax credit, forces most railroads to make the economic choice to buy new rather than repair old. In the long run, this trend will have a disastrous effect on the industry's cost structure. Government loans or other financial incentives, such as use of the investment tax credits, might help to stimulate repair of the bad ordered equipment.

As I mentioned earlier, on the Boston and Maine we are faced with the continued misfortune of having movements in which our car hire costs substantially exceed the gross freight revenues which we receive for handling the car on line. As this percentage increases, I am sure that certain segments of our transportation services will soon price themselves out of existence in the competitive market.

I must confess, in closing, that I am not very optimistic about the industry's ability to improve its freight car utilization. For it to do so would be to require substantial changes in the fixes that the theoreticians, the Commission and the AAR have developed in the past, I do not believe that the institutions, as they exist today, are capable of the objective analysis which would lead to such change. The lack of interest in the GAO report on incentive per diem is a clear example of this attitude. However, if the industry, shippers and the regulatory agencies are bold enough to make the changes which I feel are necessary, then I believe the opportunities are present not only to improve freight car utilization, but substantially increase the financial viability of the industry in general and many of its component companies.

This is a very serious issue for the Boston and Maine. I sincerely feel that if incentive per diem is placed back on a twelve-month basis or enlarged to any great extent, it could force the early liquidation of our line.

Thank you for your interest.

EXHIBIT A.—Average trips per year plain boxcars

| Year: | Trips |
|-----------|-------|
| 1970..... | 17.3 |
| 1971..... | 15.4 |
| 1972..... | 15.5 |
| 1973..... | 16.0 |
| 1974..... | 14.4 |
| 1975..... | 11.4 |
| 1976..... | 11.9 |

NOTE.—Percent change from 1970: 31 percent decline.

Source: Transport Economics, Bureau of Economics, ICC, 1977.

EXHIBIT B.—AVERAGE DAILY CAR MILEAGE

| Year | Total U.S. miles | Eastern district |
|----------------|------------------|------------------|
| 1970 | 54.6 | 41.2 |
| 1971 | 53.3 | 39.7 |
| 1972 | 56.1 | 41.3 |
| 1973 | 57.7 | 41.9 |
| 1974 | 57.4 | 41.9 |
| 1975 | 53.5 | 40.2 |
| 1976 | 56.9 | 41.7 |
| 1977 | 58.0 | 40.5 |
| Percent change | 6 | (2) |

Source: AAR Yearbook of Railroad Facts (1977).

EXHIBIT C.—FREIGHT CAR OWNERSHIP

| Year | Plain box only ¹ | All types class I ownership ² |
|----------------|-----------------------------|--|
| 1970 | 372,366 | 1,423,921 |
| 1971 | 354,943 | 1,422,411 |
| 1972 | 336,530 | 1,410,568 |
| 1973 | 329,750 | 1,395,105 |
| 1974 | 326,435 | 1,375,265 |
| 1975 | 308,558 | 1,359,459 |
| 1976 | 279,251 | 1,331,705 |
| 1977 | 280,367 | 1,287,315 |
| Change | (91,999) | (136,606) |
| Percent Change | (25) | (10) |

¹ AAR Statistics.² Yearbook of Railroad Facts (1978).

EXHIBIT D.—DEBIT PER DIEM CARRIERS FOR YEAR 1977

| Railroad | Net debit ¹ per diem payable | Freight ² car hire debit balance | Net ³ income |
|--|---|---|----------------------------|
| Marginal and Bankrupts: | | | |
| Boston & Maine | \$2,930 | \$8,679 | \$(5,614) |
| Chicago, Milwaukee, St. Paul & Pacific | 11,747 | 55,790 | (38,693) |
| Chicago Northwestern | 10,827 | 41,382 | (460,000) |
| Chicago, Rock Island & Pacific | 8,333 | 49,098 | (34,834) |
| Consolidated Rail Corp. | 139,765 | 343,299 | (631,352) |
| Delaware & Hudson | 3,116 | 11,910 | (12,646) |
| Illinois Central Gulf | 3,645 | 56,532 | 3,339 |
| Kansas City Southern | 1,724 | 10,710 | 11,584 |
| Long Island | 1,970 | 2,046 | (121,566) |
| Other debit per diem railroads: | | | |
| Colorado & Southern | 855 | 1,545 | 5,222 |
| Florida East Coast | 602 | 5,224 | 6,532 |
| Fort Worth & Denver | 1,724 | 10,710 | 2,146 |
| Grand Trunk Western | 3,489 | 15,893 | 1,711 |
| Missouri Pacific | 1,645 | 67,221 | 108,882 |
| Norfolk & Western | 1,528 | 37,830 | 103,435 |
| Soo Line | 1,095 | 13,519 | 18,800 |
| Southern Pacific | 15,138 | 116,413 | 118,182 |

¹ Net per diem payable: difference between per diem and incentive per diem receivable and payable.² Freight car hire debit balance: total payable, including mileage charges.³ Net income: net income before extraordinary items.

Ms. MIKULSKI. Thank you, Mr. Dustin. I think you have provided us with just the type of insight we wanted, of someone who is trying to grapple with the problem and do it on a day-to-day basis, rather than some lofty exercise.

I think you have made a very convincing case, certainly to me, against the incentive per diem as an aid for better boxcar utilization.

One thing you might be interested in knowing, that ICC right now is considering an incentive per diem for gondola cars, and of course, as you have talked, it gives me a certain shiver to think what we might get into.

In addition to the Railbox suggestion that you have made, what alternatives would you suggest to encourage better use for specific types of cars in short supply? I see now they are going to consider incentive per diem for gondolas, and perhaps something else. I would like to offer some more comprehensive policies. Do you have any recommendations?

Mr. DUSTIN. Well, first of all, I would like to see incentive per diem put aside because, obviously, 7 years of experience has indicated that it has not met the lofty goals that it was originally intended to.

I think second, as some people have related today, we have to eliminate this patchwork of car service directives and get back to utilizing freight cars more on a pool basis, so that we can get two-way movements. If our fleet of cars is only used 50 percent of the time, we need 100 percent more cars. But we can double the use—and perhaps that is not practical to expect—but we can substantially improve the utilization of our present fleet by utilizing them in a better fashion.

I think the clearinghouse concept that has been used successfully between certain railroads has a great deal of advantage if used collectively between railroads where there is an indication that there is a pattern of movement where railroads can use these cars in both directions. But I think it is going to take a good deal more study. I think some of the study should be done, instead of by theoreticians that do not know what is going on out in the industry, by people that do know what is going on.

Ms. MIKULSKI. Thank you, Mr. Dustin. As I have said, first, you have provided us with very fine insight in this particular issue. Second, for somebody who has held on, despite having been made offers to by ConRail, it really is encouraging to us to know there are still railroad entrepreneurs out there who just refuse to give in and who are going to hang in there.

I think many of us in the Congress feel that it is the small railroads that are succeeding. You will solve the problems because you are the manager, you are the president, you are going to be right there when you have to meet the need; and you are facing your shippers in a direct way. So, we are glad that you are still alive and well.

Mr. Skubitz?

Mr. SKUBITZ. Mr. Dustin, I am familiar with your problem on your line, but there are a few things that I would like to get straight in my own mind. When you speak of "per diem", that is the charge that is made by the user railroad, is it not, for the use of a car?

Mr. DUSTIN. Yes.

Mr. SKUBITZ. In other words, if a car owned by a company is sent over your tracks you are allowed what, 24 hours, before you pay per diem on it?

Mr. DUSTIN. Well, it has changed. It has recently been changed. But basically, Mr. Skubitz, there are two levels of per diem part of the year, and one level of per diem the other part of the year. For 6 months of the year, right now, we have basic per diem which is supposed to be based upon the costs, the initial costs, carrying charges, depreciation, the wear and tear of a car.

Mr. SKUBITZ. What is it today, how much?

Mr. DUSTIN. For a new car today it would probably run, basic per diem, about \$12.

Mr. SKUBITZ. \$12 a day.

Mr. DUSTIN. Yes, but from September 1 through the end of February each year, a 6-month period, through incentive per diem that was mandated by the ICC in 1970, there is an additional level of per diem over and above the basic per diem which also, for this particular car, would run about \$12 a day. So, that is doubled.

Mr. SKUBITZ. It would be \$24. But, when does the incentive per diem go on? How many days to you get to keep the car before it goes on?

Mr. DUSTIN. It goes in immediately. And now, on July 1, we went from per diem—at the bewitching hour of midnight, which has been in effect for years and years—to hourly per diem. Now you pay for the number of hours that you have that car, instead of for the days that you have it, measuring it by midnight.

Mr. SKUBITZ. You have it down to an hourly basis now?

Mr. DUSTIN. Yes, sir.

Mr. SKUBITZ. Well, suppose you had it 8 hours and that is a day, or 24 hours, how much would it amount to, to use the hourly basis?

Mr. DUSTIN. Well, if you use basic per diem and incentive per diem and assume that together it is 24 hours, \$24 for a 24-hour period. Then, 8 hours would be \$8.

Mr. SKUBITZ. Well, that is just trying to urge you to release the car as soon as possible.

Mr. DUSTIN. That is the basic goal, yes.

Mr. SKUBITZ. How many cars does the Boston & Maine have, how many boxcars?

Mr. DUSTIN. Well, we own about 3,000 boxcars—own or lease.

Mr. SKUBITZ. And about how many do you use on your rails each year from other lines?

Mr. DUSTIN. We use considerable, and they use ours because our cars are free running, they are under no car service directives. If we do have a shortage on our line we are not able to get them back. We terminate about two loads, 2½ loads for every load we originate.

Mr. SKUBITZ. What is the length of time you usually hold, what is the average length of time you keep a car on your line?

Mr. DUSTIN. It runs about 5 days. This is the average length of time for a car that is originated or terminated on our line. We are a heavy termination railroad.

Mr. SKUBITZ. Thank you. That is all, Madam Chairman.

Ms. MIKULSKI. Thank you, Mr. Dustin, for your testimony. I have no further questions.

Mr. DUSTIN. Thank you.

Ms. MIKULSKI. The Chair has been asked to alter the schedule because some witnesses have a meeting that they must return to. So, I am going to call upon Mr. David Wagner, representing the mayor's office in Baltimore, and Mr. Rukert of Rukert Terminals.

Mr. Wagner, I know your testimony is already short, but if you would summarize it, we would appreciate it.

STATEMENTS OF DAVID A. WAGNER, TRANSPORTATION COORDINATOR, MAYOR'S OFFICE, CITY OF BALTIMORE; AND NORMAN G. RUKERT, PRESIDENT, RUKERT TERMINAL CORP.

Mr. WAGNER. Yes, I will. I will be very brief. My name is David Wagner, and I am the transportation coordinator for Mayor William Donald Schaefer of Baltimore City. I have with me Capt. Norman Rukert from Ruckert Terminal Corp. in Baltimore.

I would like to briefly outline the general railcar shortage problem as it affects Baltimore, and then Captain Rukert has a few comments he would like to make about it as it specifically affects his particular industry.

Baltimore has been experiencing a greater and greater increase in railcar shortage problems in the last year or two, and it is particularly severe in Baltimore as opposed to some other places because railroad service is an important part of Baltimore City, given the relationship of the port and the industries, and their use of railroads. We have an extensive rail network in Baltimore, but it does have some problems.

There are mainline capacity problems cause by interfacing through-freight trains from ConRail to Amtrak, through some undersized tunnels. We have problems with efficient movement of cars through some of the railroad complexes because of the physical layout of the port and because of congestion in some of the yards. And an important factor is that the major switching company in Baltimore, the Canton Railroad Co., has filed for abandonment of all its facilities in southeast Baltimore.

When you add these rail constraints together and you put railcar shortages on top of them, Baltimore is particularly vulnerable to the problem. Just last week I heard from the Canton Railroad that a 45,000 ton ore ship was diverted away from the Port of Baltimore because of perceived rail problems in unloading the ore into adequate railcars and moving them out of Baltimore in a reasonable fashion.

We cannot afford to lose the economic dollars and the jobs associated with this kind of lost business. It does not show up in any ledger anywhere; it does not appear in any report as business that you did not get because the railcars were not there, or because the rail service that you have in your particular area was poorer than it should have been.

The one point I want to make in this testimony is, we have had some ICC hearings in Baltimore on railcar shortages, and they boil down to a lot of finger-pointing between the Interstate Commerce Commission and the railroads as to just who was at fault in the whole problem. It is kind of disturbing seeing all this energy wasted on pointing at who is to blame without concentrating on trying to solve the problem. A lot of the measures that the ICC has

put into effect to date are punitive in measure, and are regulations to force the railroads to be more efficient in car handling—they do not seem to be working.

I was prepared to testify today that maybe the way to go was incentives, but I heard the chief executive officer of the Association of American Railroads just say that they had enough incentives; and I just heard the president of a major railroad say that they have too many incentives. So, that does not seem to be the answer, either.

As a local government official I am now totally confused as to what the real problem and the real solution to the problem is. But I would like to say that the problem is real, and it is there; and it is affecting shippers in Baltimore dramatically. I think we have to get as it now because it is not going to go away.

I would like Mr. Rukert to take a few seconds to outline his particular problem and how he is affected, and then we will both be available to answer questions.

STATEMENT OF NORMAN G. RUKERT, SR.

My name is Norman Rukert, I am president of Rukert Terminals Corp. who has been operating port facilities in the Port of Baltimore since 1921. Annually over 500,000 tons of export and import materials move through our terminals.

At this point in time this material is, by and large, dry bulk material, such as nickel, potash, ferroalloys and animal food supplements. As you may imagine, these are the types of commodities which are heavily dependent on rail transportation for shipments to our clients across the country.

In spite of this fact we have seen a decline in rail utilization at our facility from 3,600 cars handled in 1970 to 947 cars handled in 1977. This decline has occurred in spite of the fact that our total tonnage handled at the terminal has risen during that same period. By and large this decrease has occurred not because trucks offer a more economical mode of moving such commodities, but because rail freight problems have forced shippers to turn to other alternatives, even at higher cost. This is precisely what took place with one of our nickel accounts which, after repeated delays with gondola deliveries and cars frequently arriving in serious disrepair, chose to shift shipments to trucks.

Just this year, particularly during the months of March and April we saw a serious deterioration by our rail carrier, ConRail. During this period delays on empty hopper and gondola cars averaged 9 to 10 days. In one case 5 weeks elapsed between the order of gondolas and the eventual arrival of cars to their destination in Fort Wayne, Ind. Such delays are more than mere inconvenience to our operations, they threaten our continued viability.

The seriousness of this situation was highlighted by the threat of our two largest accounts to shift their gateway to a gulf coast port as a direct result of our poor rail freight service.

I would end with the statement, but I would just like to make a few more comments on car utilization. I have heard the railroad's side, and it just does not make sense on my side that at a terminal where I had 20 cars come in to be unloaded, which I unload

immediately; and I have freight enough on the pier to reload those 20 cars, that I am not able to reload them. They must be sent back.

Now, they complain about car shortage, car utilization, that is one place that they certainly can change over very quickly. As you know, our problem is that at ConRail we found that even though we loaded cars immediately they were laying in the yard anywhere from 10 to 15 days. At one point we had, I think, 8 to 10 full trainloads laying there and not being moved.

Now, that works in another bad situation about the utilization of cars. At the same time I had between 25 and 30 covered hopper cars, which are in very short demand, laying in the yards in Washington. They could not bring them to Baltimore because they had no place to put them. If they had room at the time we would unload them immediately and they would have been on their way back.

Ms. Chairman, I thank you for the opportunity of saying these few remarks. Thank you.

[Messrs. Wagner's and Rukert's prepared statements follow:]

STATEMENT OF DAVID A. WAGNER, TRANSPORTATION COORDINATOR, MAYOR'S OFFICE, BALTIMORE CITY

Mr. Chairman and members of the Subcommittee: My name is David Wagner and I am the transportation coordinator for Mayor William Donald Schaefer of Baltimore City. On behalf of Mayor Schaefer and the city of Baltimore, I thank you for the opportunity to give testimony before this subcommittee.

A great deal of discussion has taken place in the last year or so concerning the problems associated with rail freight car shortages. During this past winter and spring I began hearing of more and more instances where rail car shortages are affecting industries in Baltimore. The lack of railroad cars not only places constraints on the amount of business that a particular industry can handle but in some cases can mean loss of business to the region. The impact of a rail car shortage can be particularly severe in a port city such as Baltimore where railroad service is such an important part of the freight movement into and out of the region.

Baltimore is fortunate to have an extensive rail network. That network however has some problems, including: (1) mainline capacity problems caused by the volumes of freight and passenger trains using a series of undersized rail tunnels on the Amtrak mainline;

(2) Less-than-efficient movement of cars through yard complexes because of the physical layout of the port, in some cases aging facilities, and in other cases just plain congestion or yard capacity; (3) a major switching railroad (the Canton) filing to abandon all of its service in the region.

This list of existing rail constraints makes Baltimore particularly vulnerable to the added effects of a car shortage. Just last week I heard about a 45,000-ton ore ship that was diverted from the Port of Baltimore because of perceived rail problems in unloading the ore into adequate rail cars and moving them out Baltimore in a reasonable fashion. Baltimore cannot afford to lose the economic dollars and jobs associated with this kind of "lost business."

The Interstate Commerce Commission recently held an informal hearing in Baltimore to hear views on the matter of car shortages. There were complaints expressed by shippers (scrap dealers and terminal companies) with regard to the lack of gondola cars. A lot of finger-pointing took place at that meeting between the railroads and the ICC as to just who was at fault in this car shortage. It was somewhat disturbing that so much energy was being used to place blame rather than to solve the problem.

Many of the temporary solutions already advanced by the ICC in service orders and in some cases in court suits against the railroads are punitive in nature and appear to be of limited relief to anybody except trucking firms where some business is diverted their way.

I do not know what the answer to the problem is. I strongly feel that it does not rest in additional penalties and regulations on the railroads. There must be incen-

tives established that would attract investment into more railroad cars and higher utilization of existing cars. Whatever the solution, it should be geared to strengthening the roads, not diverting traffic to trucks. Whatever the solution, it needs to be addressed now because the problem is real and does not appear to be going away on its own.

I thank you for the opportunity to be here and will be happy to answer any questions that you have.

STATEMENT OF NORMAN G. RUKERT, SR., PRESIDENT RUKERT TERMINAL CORP.

My name is Norman G. Rukert and I am President of Rukert Terminals Corporation operating out of 3201 Mertens Avenue in Baltimore, Maryland. Rukert Terminals has been operating in the Port of Baltimore since 1921. Annually roughly some 500,000 tons of import/export materials move through our operation. At this point in time that material is by and large of a dry bulk nature, specifically commodities such as nickel, potash, ferro-alloys and animal food supplements. As you might imagine these are the types of commodities which are heavily dependent on rail transportation for shipments to our clients across the country.

In spite of this fact, since 1970 we have seen a decline in rail car utilization at our facility from a level of 3,600 to 947 in 1977. This decline has occurred in spite of the fact that total tonnage handled at the terminal has risen during that same period. By and large this decrease has occurred, not because trucks offer a more economical mode of moving such commodities, but because rail freight problems have forced shippers to turn to other alternatives even at higher costs. This is precisely what took place with one of our nickel accounts, which after repeated delays with gondola delivery and cars frequently arriving in serious disrepair, chose to shift shipments to trucks.

We cannot, however, count on alternative modes to continue to rescue us from the inefficiencies of rail car delivery service. Just this year, particularly during the months of March and April we saw a serious deterioration of service by our rail carrier, Conrail. During that period delays on empty hopper and gondola cars averaged nine to ten days. Four to five days was the average for box car delivery. In one case five weeks elapsed between the order of gondolas and the eventual arrival of the cars to their destination in Fort Wayne, Indiana. Such delays are more than mere inconveniences to our operations. They threaten our continued viability. The seriousness of the situation was highlighted by the threat of our two largest accounts to shift their gateway to a Gulf coast port as a direct result of the degradation of our rail freight service.

Representatives of my company have attended lengthy discussions of the car shortage issue in the past. Invariably those discussions have degenerated into arguments as to the adequacy of car supply, efficiency of car distribution, and assorted fingerpointing at would-be culprits. Let me just say, that from the point of view of a shipper of goods, it makes little difference who is the culprit or the other technical excuses that are offered. To us, car shortages simply mean that empties do not arrive at our facilities to carry our goods. Such failure to deliver, in turn, threatens our very livelihood.

I thank you for the opportunity to appear before you today and urge you to exert whatever pressure you might to ensure that the rail freight transportation system aids, not chokes, American industry.

MS. MIKULSKI. Thank you, Mr. Rukert. How much, in dollar terms, did the ConRail poor service cost you this past year?

MR. RUKERT. I would say anywhere from \$100,000 to \$200,000 in charges.

MS. MIKULSKI. That you actually lost.

MR. RUKERT. Yes; let me just add one little statement which I think will cover something else. We have been told by one of our major accounts that we cannot ship ConRail any more; and for me to hold on to the account—I am going to hold on to the account—I am forced to truck the freight to the nearest railhead of Chessie and load it in cars.

MS. MIKULSKI. Well, would you say that your experience is typical of industry's in the Port of Baltimore?

MR. RUKERT. I would say my problem is typical of anyone in ConRail in the Canton area.

Ms. MIKULSKI. So, that your economic solvency and ability to attract business depends on your ability to say to your contractors that you can get railroad cars; is that right?

Mr. RUKERT. That is absolutely correct, and I am in a very vulnerable position at this time because I am on ConRail throughout the entire terminals. I am thinking about spending a large amount of money for redevelopment of some of our things. But I am in a position right now, I just do not know what to do on account on the ConRail situation.

Ms. MIKULSKI. Well, let me ask you another question in terms of arrival and departure of ships. How does this car shortage and ConRail's lack of service affect your ability to even schedule the arrival of ships and departure of ships?

Mr. RUKERT. It affects it. I could point out one example that happened the early part of this year. We had a vessel come in with nickel that was to be loaded into gondola cars, and we delayed the ship 48 hours before we got our first gondola cars which, really, put a real black eye on the Port of Baltimore.

Ms. MIKULSKI. Which of course says the people are not attracted to us, and they are thinking about using other ports?

Mr. RUKERT. Yes; we were threatened, as I said, by two main accounts to move from Baltimore to New Orleans.

Ms. MIKULSKI. Mr. Wagner, I know that the city is trying to attract business to the community. What do you think would happen to the port and to Baltimore's economic development plan if these car shortages continue?

I guess what I am saying, you heard what I said to Mr. Hagen of ConRail, that really the freight car shortage is as much of the urban policy problem as anything else we are doing. You can open everything you want, but unless we deal with some of these basic problems, the cities are not going to make it.

Am I right in that?

Mr. WAGNER. Yes; it is happening right now. As Mr. Rukert was saying, what it is doing is constraining the existing businesses that are there, they are operating at less than their full potential; they are turning businesses away, business support away because they do not have the cars to serve it. When a business looks to locate they look to Baltimore and say, "There is good rail service there, that is the place to go," but when they find out that their business growth is going to be constrained there, that can become a decision factor in not locating there. So, it is hurting us now, the fact that we are getting poor rail service and not getting adequate cars is hurting the present shippers, as well as our potential for attracting new business.

Ms. MIKULSKI. Thank you. Mr. Skubitz, do you have any questions?

Mr. SKUBITZ. No questions.

Ms. MIKULSKI. Thank you very much, you have provided us with a lot of insight.

Mr. WAGNER. Thank you.

Ms. MIKULSKI. The Chair has also been informed that Mr. Curtis Buford, the president of Trailer Train Co. has a plane to catch. So, we are again rearranging the schedule a little bit. I understand

that you are connected with this Railbox that I have been hearing about; is that right?

Mr. BUFORD. Yes; it is.

**STATEMENT OF CURTIS D. BUFORD, PRESIDENT, TRAILER
TRAIN CO.**

Mr. BUFORD. I very much appreciate the opportunity to testify here and to talk to you at this point, so that I can make a trip back.

In order to expedite things, let me just give you a very quick summary of what is in my statement. As you know, the statement has some attachments. There is included with it the annual report of Trailer Train and American Railbox Car Co. there is a background information memorandum that explains in some detail how these car pools work; and there is a prospectus for a recent equipment financing that we did, which of course covers a lot of financial details.

I might just say to you that Trailer Train and American Railbox Car Co. have successfully employed carpooling concepts and techniques to finance and to furnish, and maintain standardized flatcar and boxcar equipment at reasonable rates to their participants—the pool participants, railroad participants.

Whether these concepts and techniques can be adapted to similar pooling of other car types cannot be assessed prudently without our studying the matter in some detail. Such a study would have to include a market survey with emphasis on cyclical fluctuations. These matters have been touched upon by other witnesses here today: the development of optimum car specifications; the identification of means of financing initial car acquisitions at reasonable interest rates; and a survey of the rail industry to determine the degree of participation in the poolings which could be reasonably expected.

Perhaps another way to put this is, I know that committee's interest is seeking to find not only questions, or answers to questions dealing with car utilization generally, but in at least the invitation to me there was a rather specific issue dealing with grain and coal car problems.

Part of the need for a study is to determine whether we are involved in some unique aberration in normal practice, rather than some genuine continuing problem. It was only last year that there were significant surpluses of grain hoppers in the country. It may be that this situation is on the way toward being rationalized and we do not know—no one really knows until some kind of definitive information is gathered. We did take the opportunity when this question was raised with us to find out what car-building plans were in progress in the country, and we discovered that as of right now the regular car builders have some 8,000 coal cars on order and about 8,000 grain cars on order; and the nature of the car building industry and the components that go in the cars being in short supply as they are, results in the fact that to order new cars today means that you can probably expect delivery in 1980. Believe it or not, we are about 18 months away from receiving delivery of new cars above and beyond those which are already on order. So,

there is indeed a huge number of cars that are on order for delivery in the next period of time.

Railbox, for example, will add 3,700 boxcars this year, 5,000 for sure, maybe 6,000 in 1979, and probably 5,000 in 1980. We plan to have it grow at the rate of 5,000 per year; that is our present forward planning.

Trailer Train, on the other hand, with its flatcar fleet, is adding this year about 3,400 cars; next year probably another 2,000, and we will continue to add flatcars to the fleet depending upon the indicated needs and requirements that those commodities transported by piggyback seem to indicate a need for fleet expansion.

So, I hope that with your familiarity of my statement that these comments adequately summarize it, and I will be glad to answer any questions.

[Testimony resumes on p. 183.]

[Mr. Buford's prepared statement and attachments follow:]

STATEMENT OF CURTIS D. BUFORD, PRESIDENT, TRAILER TRAIN CO.

Trailer Train Company and American Rail Box Car Company have successfully employed car pooling concepts and techniques to finance, furnish and maintain standardized flatcar and boxcar equipment at reasonable rates to their railroad participants.

Whether such concepts and techniques can be successfully adapted to similar poolings of other car types cannot be assessed prudently without our studying the matter in some detail.

Such a study would have to include a market survey with emphasis on cyclical fluctuations, the development of optimum car specifications, the identification of means of financing initial car acquisitions at reasonable interest rates and a survey of the rail industry to determine the degree of participation in the poolings which could reasonably be expected.

My name is Curtis D. Buford and I am the President of Trailer Train Company and its wholly-owned subsidiary, American Rail box Car Company ("Railbox"). Both companies have their principal place of business at 300 South Wacker Drive, Chicago, Illinois 60606.

Trailer Train is owned by twenty-nine operating railroads, one freight forwarder and the Trustees of two former operating railroads.

Trailer Train and Railbox maintain large fleets of flatcars and boxcars, respectively, which are supplied to the Nation's railroads under Interstate Commerce Commission approved pooling agreements designed to enable the cars to be used intensively so that the railroad industry may have convenient access to an adequate supply of basic equipment at a low cost.

I am appreciative of the request that I testify in these hearings called to consider Freight Car Utilization and the National Car Shortage.

My purpose is to provide the Subcommittee with factual information concerning Trailer Train and Railbox and answer questions relative to the possible use of pooling concepts and techniques as means of alleviating car supply and utilization problems.

In order not to unduly burden my statement or the Subcommittee's patience, I have attached the following documents for ready review and reference:

Appendix "A"—Background Information—Trailer Train Company and American Rail Box Car Company.

Appendix "B"—1977 Annual report of Trailer Train Company.

Appendix "C"—Trailer Train Company Prospectus, Equipment Trust Certificates, Series 39.

Together, these Appendices provide all information that the Subcommittee may need to know concerning the history, structure, policies, operations, financing, regulation and documentation of Trailer Train and Railbox.

The highlights of the current success of Trailer Train and Railbox could be summarized in the following list of characteristics:

The flatcar and boxcar pools respond to essential rail transportation requirements.

Original financings of flatcars and boxcars were enabled by railroad owner guarantees of equipment obligations with such guarantees discontinued as soon as favorable bond ratings permitted the companies to borrow on the strength of their own

balance sheets. We currently enjoy an "A" rating for debt securities. To maintain this rating, Trailer Train's financial goals are: debt should be 80 percent or less of total capital employed; earnings should cover at least 1.5 times the interest charges on equipment debt; and operations should generate a cash flow sufficient to cover debt maturities by at least 1.25 times.

The Companies' cars are constructed to specifications which produce a standardized, rugged car capable of surviving in a harsh rail environment with minimum maintenance attention and cost.

Car maintenance is planned, with cars removed from service on prearranged schedules for quality repairs at reasonable rates with minimum time out of productive service. Our preventive maintenance program has enabled our cars to achieve the lowest per mile maintenance cost of any car owner so far as we can ascertain and permit 96 percent of the fleet to remain in service at any given time.

The car pools are subject to relatively little of the burdensome regulation historically experienced by rail carriers. This is particularly important in quickly changing car hire charges responsive to our financial requirements. The Boards of Directors can change our rates on 60 days notice and we do not experience any regulatory lag.

Unlike railroad owned cars, our cars are free of ICC mandatory car service rules which require cars to proceed, when unloaded, back in the direction of the car owner, or "home". Our cars have no "home" and are free to be loaded in any direction. This characteristic contributes to high car utilization. Trailer Train Cars as a whole average 139 miles per day, with piggyback cars averaging 170 per day. Rail owned cars as a whole average about 56 miles per day. Also, our boxcars enjoy a ratio of loaded (productive) to total miles about 35 percent higher than similar cars in rail ownership.

Careful budgeting and long range business planning enable the Companies to prepare financially for fleet growth to meet the needs of pool participants. We make use of two econometric models to forecast fleet requirements.

Extensive use of computer technology including a comprehensive management information system in nearly every phase of our activities has enabled fleet growth to proceed with efficient use of personnel. As an example, the initial 10,000 Railbox cars were placed in service with minimal added personnel being required. As a result, we enjoy a high ratio of revenue and assets per employee, with each employee a dedicated specialist in his own field. These employees perform all functions of planning, research and development, purchasing, financing, budget control, car distribution, equipment engineering and maintenance, car accounting, revenue accounting and legal services.

Standardized designs permit the placement of large consolidated purchase orders geared to manufacturers' construction schedules. The economies thus gained can, in large part, be passed on to participating railroads by way of a lower car hire rate structure and, through railroads, to the shipping public.

A pool participant pays car hire for the cars only while it uses the cars or until the cars reach the lines of another pool participant. This is somewhat similar to the method by which railroads pay each other for ICC prescribed car hire charges, and it is familiar to and accepted by carriers. Whenever a carrier has surplus cars, we are notified and relieve the carrier from car hire charges after minimal time periods. We seek a carrier who needs the cars and issue a car movement directive to permit surplus cars to be used at the next nearest point where they are needed for loading. If no use is found for the surplus car, it is stored by the carrier holding it free of charge to the Company.

Economies of operation have permitted car hire charges below those prescribed by the ICC between railroads for average cars of similar type, age, value and mileage run. When ICC incentive per diem is in effect for rail owned boxcars, ICC rates are, on average, 75 percent higher than Railbox rates.

We have developed a car movement directive system covering the movement of all cars directed to a shop for programmed maintenance or modification and all new and outshopped cars as well as cars declared surplus by carriers. Such reassignable cars are distributed among participating railroads on the basis of each railroad's relative need.

Whether all or any of the foregoing basic characteristics of Trailer Train and Railbox can be transferred successfully to a similar entity to provide pooling of other car types is difficult to assess absent a realistic, professional and objective study by our Company. Such a study must at minimum cover the following points.

1. A market survey dealing with the commodities to be transported by the new pool cars including seasonality and other cyclical fluctuations. This study ideally should seek to identify alternative available commodity transportation opportunities for the equipment when not used for the principal commodities for which it would

be designed. To the extent alternative uses could not be found, the cost of idleness must be identified.

2. Development of optimum specifications for the design of equipment with the broadest transportation capabilities and the least maintenance expense.

3. Identification of means of financing substantial initial equipment acquisitions until such time as the pooling entity obtains the financial characteristics and credit rating to finance equipment debt on its own balance sheet. In the case of Trailer Train and Railbox, the initial equipment financing was enabled by railroad owner guarantees. I am not in a position to say whether similar guarantees could be made available for the pooling of new types of equipment but I would suspect that such guarantees would be difficult to obtain at the present time. Neither Trailer Train nor Railbox could finance or guarantee such new equipment obligations since each must continue to respond to scheduled growth requirements for flatcars and boxcars. The crucial question of financing new pool car types could possibly be resolved by government guarantees somewhat similar to Title XI ship mortgage guarantees with an appropriate guarantee fee being paid to the government for lending its faith and credit to the financing.

The problems that many perceive to exist with respect to government guarantees are that they are often unavailable or made administratively difficult to obtain, they require overview, accounting and auditing by governmental agencies, they often contain restrictions on the payment of otherwise legitimate dividends for the duration of the guarantees, and generally, that a number of "strings" are or can be attached to the guarantee process. These and other perceived infirmities could, I believe, be limited by carefully drafted legislation designed to minimize the burdens of the guarantee process yet still give the government sufficient comfort with respect to repayment.

4. A rail industry survey to determine whether there would be relatively broad support required for carrier participation in a pooling of new car types and, generally, the terms and conditions which participants would be willing to observe in connection with the day to day operation of such a pool. Analysis of profitability of the traffic to be handled by new pool car types will be an important factor in determining the degree of rail participation. Without adequate participation, such a pooling may not be feasible.

While the foregoing appear to me to be the most important items to study, our study should also include projections of manufacturing capacity, car acquisition costs, maintenance and administrative costs, organizational changes, pooling documentation, projected car hire charges including possible consideration of a dual rate structure which might be responsive to peaks and valleys of demand, identification of a program repair facility network and other details essential to mounting a new business operation.

I would like to emphasize the words "business operation". In the press announcement of the Hearing Notice, Chairman Rooney has recognized that the transportation system of the United States cannot be expected to adjust to unpredictable or precipitous demands such as have been experienced in 1978 in the movement of coal and grain. Any private enterprise response in pooling new car types must include the means to spread the risks inherent in cyclical equipment usage.

In conclusion, the success that might be obtained by the use of pooling concepts and techniques, similar to those of Trailer Train and Railbox, for the supply of other types of pooled equipment cannot really be known without a careful study such as I have outlined. Again, let me say that I appreciate this opportunity to give you this information. I will try my best to answer all of your questions as well as furnish you any other information you may desire.

Respectfully submitted.

APPENDIX "A".—BACKGROUND INFORMATION, TRAILER TRAIN CO. AND AMERICAN RAIL BOX CAR CO.

GENERAL AND HISTORICAL INFORMATION

In the decade following the conclusion of World War II, the expansion of the interstate highway network and the trucking industry resulted in diversion of significant traffic and revenues from the Nation's railroads. Several railroads, chief of which was The Pennsylvania, sought to recapture this lost traffic by means of piggyback or trailer-on-flatcar service by which two highway trailers could be transported on a single flatcar.

This new mode of transportation often describe as "intermodal", combined the inherent long haul, low cost characteristic of rail transportation with the door to

door flexibility of motor transportation. The growth of piggyback service suffered because there was no standardization of car types. To meet the need for standardized equipment, The Pennsylvania Railroad together with the Norfolk & Western and Rail Trailer, a consulting firm, incorporated Trailer Train Company in Delaware in November 1955. The purpose in founding the Company was to provide a mechanism for the supply of standard, readily interchangeable flatcars at the lowest possible cost to rail users consistent with the financial needs of the Company. These cars were to be financed, owned and maintained by the Company, initially with stockholder guarantees of equipment debt of the Company.

The promotion of piggyback resulted in other railroads acquiring stock as a prerequisite to obtaining cars under the Form A Car Contract, the Company's principal user document which is later describe in more detail.

The 41 outstanding blocks of 500 shares were at one time owned by 40 railroads and one freight forwarder, Transway International (formerly U.S. Freight). Mergers have resulted in concentration of stock in the hands of 32 owners. No stockholder owns or controls more than three blocks of 500 shares or approximately 7.3 percent of the outstanding stock.

When Trailer Train began operations in March of 1956 it had 500 flatcars in its fleet and one full time employee. Today the Company has 251 employees and a fleet in excess of 80,000 flatcars of various types acquired at an original cost of \$1.5 billion. These cars include predominantly intermodal cars used in the transportation of highway trailers, containers and combinations of both. In addition, beginning in the early 1960's Trailer Train began furnishing cars to which rack superstructures could be affixed for the transportation of finished automobiles. Special purpose cars have also been acquired for the handling of long shapes, forest products and agricultural implements. Currently, the Company's intermodal cars account for 87 percent of all such cars extant in the country. Its autorack cars account for a somewhat lesser percentage of such cars. Beginning in the mid 1960's the Company began reducing its reliance on services provided by The Pennsylvania Railroad and its successor, Penn Central, in managing the Company. During 1969 and 1970, the shift to an internal professional management was completed. This occurred prior to the Penn Central's Petition under Section 77 of the bankruptcy laws. In 1971, when its lease of premises expired in Philadelphia, the Company relocated its offices to Chicago.

In 1974, the railroad industry, acting through the Board of Directors of the Association of American Railroads, endorsed a concept of a free-running pool of boxcars to be operated as a unit of Trailer Train Company. American Rail Box Car Company (Railbox) was created for such a purpose as a Delaware corporation, wholly owned by Trailer Train Company.

A Boxcar Pooling Agreement and its related operating BX Car Contract were created and an application on behalf of participating railroads was filed with the Interstate Commerce Commission and approved August 1, 1974. At the same time, Trailer Train Company and its participants filed an application for approval of the pooling of flatcars pursuant to a Flatcar Pooling Agreement and its related operating Form A Car Contract. There are currently 28 participants in the flatcar pool and more than 240 participants in the boxcar pool. Approval of these poolings by the Interstate Commerce Commission results in a limited grant of antitrust immunity extending to those things necessary to effectuate the pooling agreements which were approved. While stock ownership remains a prerequisite for participation in the flat car pooling, it is not a prerequisite for participation in the boxcar pooling. The acquisition of an original fleet of 10,000 cars by Railbox was guaranteed essentially in 1,000 car segments by 11 railroads with excellent credit ratings. A fee of 1 percent on the outstanding balance remaining under guarantee is paid annually to each guarantor. The 10,000 boxcars acquired were financed by leveraged leases. The original cost of this fleet was \$265 million. Acquisition of additional cars has been authorized.

In addition to Railbox, Trailer Train also owns all the capital stock of Hamburg Industries, Inc., a Delaware corporation, which repairs Trailer Train cars at a facility located at Hamburg, South Carolina. Another subsidiary, Calpro Company, is constructing a new shop facility in Southern California to assure additional high quality repairs of the Company's cars. It is currently anticipated that a limited number of similar additional shop facilities will be acquired or constructed in strategic locations.

The basic purpose of both Companies is to finance, furnish and maintain standardized equipment at the lowest possible cost to users consistent with the financial requirements of the Companies to meet all of their expenses and provide a measure of growth to meet the needs of users.

In the twenty-two years of its existence Trailer Train has grown from a small experimental enterprise to one which in 1977 had revenues of approximately \$318 million on a consolidated basis. Its fleet is the largest privately owned car fleet in the world and, because its cars are not subject to mandatory car service rules relating to home routing and because of the relatively high speed point to point service in which they are employed, they produce more car miles than any fleet in the country regardless of ownership or size. The Company is no longer an experiment.

DOCUMENTATION: STOCKHOLDER AND USER AGREEMENTS

The "keep well" agreements

Originally, the Company's individual financings were guaranteed by the stockholders. These guarantees were later replaced by the "Shareholders' Agreement" of October 25, 1960 by which all pre-1962 equipment obligations were jointly and severally guaranteed by the Owners. The original \$125 million guarantee has been reduced to \$7,723,124.00 as of the end of 1977. The amount of the guarantees will continue to decline until it expires in 1982.

The Shareholders' Agreement and two other agreements (the Note Purchase Agreement of January 1, 1967 and the Subordination Agreement of May 15, 1963), herein referred to collectively as the "Keep Well" Agreements, were created to enable the Company to finance new equipment acquisitions on its own balance sheet without further resort to owner guarantees. The Subordination Agreement provides that a stockholder's claims against the Company will be junior to any claims against the Company by owners of equipment obligations. The Note Purchase Agreement required each stockholder to purchase agreed proportions of up to \$50 million in notes issued by the Company. Only \$20 million in such notes were issued with the last issue of \$10 million in early 1969. These notes are subordinate to equipment obligations. After a review of the Note Purchase Agreement with the bond rating agencies—which insisted upon the agreement originally to permit an A rating of the Company's debt securities—the agencies consented to the Company's permitting the Agreement to expire.

Accordingly, the Note Purchase Agreement has now expired and stockholders are no longer required to purchase additional subordinated notes. The obligations guaranteed under the Shareholders' Agreement are winding down and it will shortly expire. Thus, while the "Keep Well" Agreements served their purpose well, they are no longer essential for the financing of equipment.

The Form A Car Contract is the principal document between Trailer Train Company and its rail carrier participants. It sets forth the various terms and conditions under which the Company furnishes cars to railroads and by which they, in turn, agree to pay the Company's car hire rates and charges. Execution of this contract is a prerequisite to participation in the Flatcar Pooling Plan. It covers such items as loss and damage to cars, provision for payment of ad valorem property taxes by Trailer Train Company, switching and haulage charges, storage and turn-back of cars, per diem relief, responsibility for loss or destruction of cars and maintenance and repair. The original fifteen year term of most Form A Car Contracts has expired, although these contracts have been given new life by the Pooling Agreement which requires that the Form A Car Contract not be cancelled for the duration of the Pooling Agreement. The Pooling Agreement has a fifteen year duration and then is renewed automatically from year to year unless cancelled on one year's notice. The Pooling Agreement is dated as of October 1, 1974 and accordingly its original fifteen year term runs until September 30, 1989.

The Trailer Train pooling agreement

Unlike the Form A Contract which is essentially bilateral (although uniformly supplemented), the Pooling Agreement is a multilateral document executed in as many counterparts as there are participants. Also unlike the Form A which covers the details of daily operations, the Pooling Agreement is essentially a statement of basic policies and obligations. It defines the pooling principles, the adjustment refund, requirements of participation and the broad purpose of the pooling.

The form D special devices contract

This contract authorizes Trailer Train to perform the clearing house function of collecting autorack rentals from railroads using racks and remitting the rentals to the railroads owing the racks. The Company is compensated for this service which it is in a position to perform because the racks are on the Company's cars and their locations are known.

The BX car contract

This is the Railbox counterpart document of the Form A Car Contract and serves essentially the same purpose for Railbox. There are minor differences which are not essential to explore for the purpose of this memorandum.

The Railbox pooling agreement

This agreement essentially tracks the Trailer Train Pooling Agreement and serves the same basic purpose.

OPERATION AND MAINTENANCE

The 251 employees of Trailer Train manage both the 80,000 flatcar fleet as well as the 12,000 boxcar Railbox fleet. Railbox is managed by Trailer Train pursuant to a Technical and Administrative Services Agreement. Railbox has no employees and Trailer Train is reimbursed for all direct Railbox expenses plus that portion of other general expenses which its fleet bears to the combined Railbox-Trailer Train fleet.

Between its headquarters employees and its travelling auditors and maintenance supervisors located throughout the country, Trailer Train manages the acquisition, financing, revenue collection and claim processing, maintenance and repair, tax, personnel, transportation, engineering, research and development activities and legal functions of both Companies.

Most of these efforts are aided by the services of the MIC Department and its 370-158 IBM computer. While the comparison may be unfair owing to Trailer Train's unique characteristics, it has fewer employees related to total income and total assets than most companies.

The Company receives payment for the use of its cars from its participants as a result of reports received from railroads. These are processed by the computer to produce drafts upon participants in the pools. Drafts are typically furnished in the second month after the service month in which the charges were incurred. Payment of the drafts is typically followed by a sophisticated auditing procedure, the purpose of which is to refine and ultimately settle claims and counterclaims which may arise in the revenue collection process.

Unlike railroads, Trailer Train drafts its participants on an estimated basis which assures that outstanding receivables due the Company are kept to a minimum. Such receivables were once a problem which the estimated billing procedure has largely resolved. For each car hour and in most cases, car hours and miles run, a railroad is responsible to pay for the use of a car only when the car is in its possession or until it reaches another pool participant. Each Trailer Train participant who delivers a car to a non-participant is responsible for underpayment or non-payment of charges by the non-participant. In the case of Railbox, this responsibility lies on the originating carrier.

In the maintenance of its cars, Trailer Train uses about 30 authorized repair facilities located through the country as well as its wholly-owned subsidiaries, Hamburg Industries and Calpro Company. All of these facilities and their work are carefully scrutinized and audited in an effort to assure high quality repairs at the lowest possible cost. Innovations developed at the Hamburg facility are typically exported to non-owned shops performing repairs on the Company's cars.

RATES

In addition to what has already been stated concerning the collection of charges, it should be noted that the rates of Trailer Train and Railbox are in each case determined by their respective Boards of Directors on 60 days notice to the participants. This unilateral rate change procedure is specifically provided in the Pooling Agreements and has been approved by the Interstate Commerce Commission.

In November 1976, the ICC instituted a proceeding (Ex Parte No. 334-Basic Per Diem) for the purpose of establishing a new formula for the determination of compensation to be paid by railroads for the use of rolling stock, whether or not owned by a carrier. The ICC was required to revise its rules, regulations and practices with respect to car service in accordance with the Railroad Revitalization and Regulatory Reform Act of 1976 by August 1977. It was the ICC's position that the Interstate Commerce Act required that compensation for the use of freight cars be determined by it for each type of freight car and that car hire charges be established for shipper and other privately owned as well as railroad owned freight cars. Trailer Train and Railbox filed a statement in the proceeding setting forth the position that the car hire charges of Trailer Train and Railbox to their respective Pool Participants be exempt from any new formula adopted by the ICC for determining car hire charges. In its Report and Order dated August 1, 1977, the ICC affirmed its position that it has jurisdiction over the car hire charges to be paid by

railroads for the use of shipper and private car line company cars, but also stated that Trailer Train and Railbox would be exceptions to any car hire formula adopted.

Unlike ICC prescribed car hire charges which are based on value and age, the rates of Trailer Train and Railbox are uniform with respect to car type and their rates have typically been below ICC rates for car types of the same average value, age and mileage. Forward planning of the Company contemplates a continuation of rate levels generally lower than ICC rates prescribed for cars of railroad ownership.

REGULATION

Trailer Train is regulated by the Securities and Exchange Commission with respect to the issuance of its securities. It has had 8 public offerings of debt securities and contemplates more in the future. It files SEC report forms 10-K, 8-K and 10-Q. As in the case of other private car line companies, Trailer Train and Railbox file a report form C-1 with the Interstate Commerce Commission annually. This form essentially deals with the mileage run by the cars during the year. Additionally, both Companies are subject to records retention and destruction regulations of the ICC. Also, all changes, supplementations and amendments to the pooling agreements must be filed with the ICC. This is done pursuant to the Commission's Order in F.D. 27589 and 27590 to permit the Commission to ascertain if "substantive changes" are being made which require reapproval of the Pooling Agreement. All amendments and supplements to the involved contracts have been so filed thus assuring that the poolings remain approved as they evolve. It should be specifically noted that while rate supplements are filed with the Commission, the Commission in its Report and Order of August 1, 1974 agreed with the philosophy that rate flexibility was required for operation of the pools.

CORPORATE STRUCTURE AND ORGANIZATION

As discussed earlier, Trailer Train has 32 stockholders, of which 29 are operating railroad companies. Three of these operating railroad companies, the Boston and Maine, the Milwaukee Road and the Rock Island are in bankruptcy. One stockholder, Transway, is a freight forwarder. The Trustees of the Estates of the Reading and Erie Lackawanna conveyed their rail properties to ConRail pursuant to the Final System Plan of USRA and thus are no longer operating railroad companies.

As each stockholder joined the Trailer Train group it was afforded a seat on the Board of Directors and on the Finance Committee in order that it could participate in the affairs of the Company. Since total stockholders once numbered 41, there are currently 41 members of the Board plus the President of the Company for a total of 42. In 1971, the Board of Directors authorized a change in the Bylaws to provide a 10 man Finance Committee, all of whose members must be Directors. There is no Bylaw provision for an executive Committee.

Members of the Board are nominated annually and the Board meets six times a year.

Railbox Directors currently number 21 but can be as many as 25 pursuant to its Bylaws. as a condition of guarantees of segments of Railbox's equipment obligations, each guarantor road is entitled to a seat on the Railbox Board. Other Directors are nominated with due regard for size, amount of use and geography. A degree of rotation is employed with respect to these Directors. additionally, because of the many short line railroad participants in the Railbox pooling, the President of the American Short Line Railroad Association is typically nominated and serves on the Board.

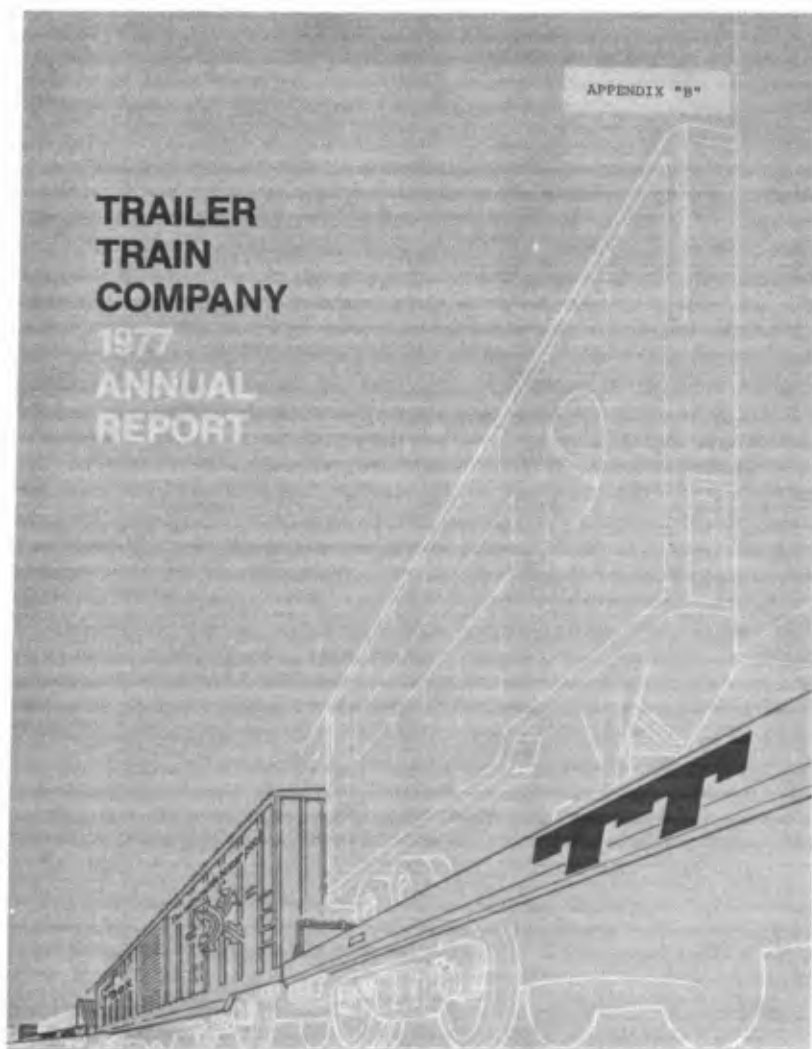


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The International Brotherhood of Teamsters

1977
[unclear]

Highlights

Consolidated
Financial
Data

| | 1977 | 1976 |
|-----------------------------------|----------------|----------------|
| Revenue | \$ 318,811,422 | \$ 290,912,428 |
| Income Before Provision for Taxes | 48,417,137 | 47,038,199 |
| Net Income | 31,083,059 | 30,533,876 |
| Cost of Transportation Equipment | | |
| Owned | 1,184,205,727 | 1,125,009,331 |
| Leased | 578,590,509 | 540,031,198 |
| Working Capital* | 81,243,089 | 60,852,005 |
| Retained Income | 231,537,343 | 200,444,294 |

Operations

| | | |
|--------------------------------------|-----------------|---------------|
| Trailer Train Company | | |
| Number of Cars Owned & Leased | 79,095 | 76,535 |
| Annual Mileage | 3,760,000,000** | 3,289,963,612 |
| Average Miles Per Car Per Day | 142.0** | 135.2 |
| Percentage of Cars in Service | 93.8 | 91.7 |
| American Rail Box Car Company | | |
| Number of Cars Owned & Leased | 10,016 | 9,969 |
| Annual Mileage | 216,460,000** | 199,073,651 |
| Average Miles Per Day | 60.0** | 59.8 |
| Percentage of Cars in Service | 99.3 | 98.8 |

* Excludes of long-term debt due within one year.

** Estimated.

Description
of Operations

Trailer Train Company operates a nationwide, free-running fleet of flatcars used in intermodal service, transportation of new automobiles and transportation of miscellaneous commodities. Its wholly-owned subsidiary, American Rail Box Car Company, was organized in 1974 to operate a fleet of free-running general service boxcars.

In 1974, Trailer Train Company acquired all of the outstanding stock of Hamburg Industries, Inc. This company is a maintenance facility operated as a wholly-owned subsidiary engaged in the repair of Trailer Train and Railbox cars. In 1977, Trailer Train organized Catpro Company, a wholly-owned subsidiary, which will be engaged in the repair of Trailer Train and Railbox cars. Catpro is scheduled to commence operations during 1978.

President's Message



C. D. Buford, President

Record levels of intermodal carloadings by the railroad industry, accompanied by continuing strong demand for auto-hauling equipment and a high level of utilization of the boxcar fleet enabled Trailer Train Company and its subsidiaries to report favorable operating results for the year 1977.

Consolidated revenues were \$318.8 million for the year compared to \$290.9 million for 1976, an increase of \$27.9 million or 9.6%. Consolidated net income increased 2.0% from \$30.5 million in 1976 to \$31.1 million in 1977. The improved results reflect improved utilization of both the flat car and boxcar fleets and a 7% increase in flat car rental rates, effective April 1, 1977, in recognition of planned increases in car maintenance costs. Offsetting these factors was a 10% reduction in Railbox car rental rates effective January 1, 1977, as a result of higher usage and lower maintenance cost than planned.

Utilization of the fleet remained strong throughout the year with 93.6% of the flat car fleet and 99.3% of the boxcar fleet in revenue service, averaging 142.0 and 60.0 miles per day, respectively. The performance of the intermodal fleet was particularly noteworthy in that it averaged over 175 miles per day and only 1.3% of the cars were in storage during the year. This high level of use reflects the fact that during 1977 a record 1,688,000 carloads of intermodal traffic were handled by the railroad industry, an increase of more than 12.1% over 1976 and 3% greater than the record set in 1973. It is significant to note that during 1977 intermodal carloadings were exceeded only by coal loadings in terms of total railroad carloadings by commodity groupings. In addition, railroad revenues from intermodal traffic were in excess of \$1 billion for the first time during 1977. Automobile sales reached a level of 11.2 million units during the year, and resulted in a record 541,000 carloads of traffic for

the rail industry. The strong performance in intermodal and auto traffic reflected the overall growth of economic activity throughout the nation during 1977 and sustained the demand for and utilization of our equipment at high levels.

Additions to the flat car fleet during the year included 500 intermodal all-purpose cars, capable of carrying trailers or containers, and 2,377 auto rack cars. In addition, 156 existing cars were modified to the all-purpose configuration in 1977. The Board of Directors of Railbox, authorized the addition of 2,500 box cars for delivery by mid 1978, including 1,000 cars equipped with 16 foot wide doors. Seventy-five box cars were received in December 1977. At year-end, the Trailer Train fleet consisted of 79,095 flat cars and the Railbox fleet numbered 10,016 cars.

A total of \$126.1 million, or 46% of revenues, was expended for maintenance of flat cars in 1977, compared with \$104.5 million and 43% in 1976, substantially as planned. Total expenses for flat car maintenance in 1977 consisted of \$67.1 million in contract shop repairs and \$59.0 million in light repairs performed by user railroads under industry rules. Our network of authorized contract shops including our subsidiary, Hamburg Industries, Inc., located in Hamburg, South Carolina, repaired 25,465 cars. Of this total, 7,965 cars received major maintenance involving complete reconditioning or modification to current engineering standards. A total of 17,333 cars were given periodic inspections required by the Federal Railroad Administration.

Hamburg Industries, Inc. repaired 2,974 cars, including major maintenance on 2,471 cars in 1977, compared with 2,115 cars and 1,546 cars respectively in 1976, an increase of over 40% in production. Capital improvements at Hamburg included installation of car turn-over devices, a new office building, a fabrication and reclamation shop, an automatic truck washing station and additional storage tracks. The success of Hamburg Industries, Inc. has been gratifying. In addition to earning a favorable return on investment each year, it provides a facility for introduction of modern repair methods. These innovations serve to reduce costs not only at Hamburg, but also at independently owned contract repair shops.

In late 1977 negotiations were completed for the purchase of land in southern California on which to build and operate a second maintenance facility. Calpro Company, Calpro was organized in 1977 as a wholly owned subsidiary of Trailer Train and will be located in the village of Mira Loma in Riverside County, California, to meet the demand for maintenance of our equipment in the western part of the nation. Construction of the plant should begin shortly and production is expected to commence in late 1978.

As mentioned in the 1976 Annual Report, Trailer Train seeks a review of the decision issued by the FRA in March 1976 in response to our waiver petition submitted to the FRA in June 1975. This petition requested modification of the requirements for the initial and periodic inspection of high utilization equipment.

In December 1977 a Petition for Reconsideration was submitted by Trailer Train to the FRA, proposing the inspection of all high utilization cars 500,000 miles after construction or reconditioning, with one intermediate or periodic inspection at 250,000 miles. As of this time, no decision has been announced by the FRA. The 1978 maintenance plan is based on a favorable response to this Petition.

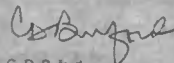
In cooperation with our railroad stockholders, a development program was initiated in 1977 which will result in the construction of two prototype intermodal cars designed to improve the economics of intermodal traffic in high volume corridors. Engineering work on the structure has begun and the prototypes are expected to be in service during 1978. Engineering and research activities are described in greater detail in another part of this report.

Organizational changes during the year included the appointment of William H. Thompson as Vice President Fleet Management, responsible for the Fleet Operations, Development Planning and Purchasing Departments. Concurrently, Wilbur R. Shannon, formerly Vice President Transportation and Maintenance, was appointed Vice President Equipment, with responsibility for the company's maintenance and engineering activities and subsidiary companies engaged in car repairs.

We appreciate the support of the Board of Directors in meeting our financial goals for 1977, and the enthusiastic response of our employees in meeting the challenges presented during the year.

We look forward to 1978, and remain confident that the efforts of the company and its stockholders and pooling participants will continue to make a significant contribution to a strong national transportation system.

Sincerely,



C. D. Buford

Financing



Norman V. Rerchert, Vice President
Finance and Treasurer

A total of 3,706 new flat cars were financed during 1977 at a cost of \$124.8 million. Deliveries on 645 of these cars costing \$21.8 million have been delayed until 1978 due to a strike at the plant of a carbuilder. An additional 1,888 flat cars and 2,500 box cars estimated to aggregate \$151.8 million have been authorized by the Board of Directors for acquisition during the first half of 1978.

Of the 3,706 cars financed, 500 were intermodal all-purpose types equipped to carry trailers and/or containers, and the remainder were auto rack cars designed to accept special railroad-owned superstructures for the transport of autos, trucks and other vehicles.

Pursuant to a public offering of equipment trust certificates totaling \$45.0 million, 1,730 cars costing \$56.3 million were financed. The balance of \$11.3 million, or 20% of the total cost, was provided from corporate funds. An S-7 Registration Statement was filed with the Securities and Exchange

Commission and became effective July 7th. The Equipment Trust Certificates were priced to yield an average of 8.02% to the holders. Maturities ranged from 1 to 5 years on \$15 million and 15 years on \$30 million of sinking fund certificates. The issue was well received and was fully subscribed within two days of the offering.

An additional 1,825 new cars costing \$62.9 million were financed under four separate leveraged leases. Under these financing vehicles, the tax attributes of ownership, namely 10% investment tax credit, accelerated depreciation and interest deductions, accrue to the third party owner/lessors, and benefits are returned to the Company in the form of long-term leases at beneficial rates. Leveraged lease financings are negotiated to the extent that the Company cannot currently realize the tax benefits in its own tax return. Under these four leveraged leases, the respective owner/lessors provided equity capital totaling \$26.6 million and financing was arranged for \$36.3 million through the private placement of conditional sale agreements.

The remaining 151 new cars financed in 1977 were purchased for cash from destroyed equipment funds held in trust to preserve the security behind the respective equipment trusts when cars are destroyed.

The dollar weighted average interest rate for all debt issues was 8.29% for 1977 compared with 8.97% in 1976. With respect to the leveraged leases, the average implicit interest cost of the rents paid by the Company is a record low 3.63% compared with 4.94% in 1976.

All 2,500 box cars authorized for acquisition by the Board of Directors in 1978 will be purchased financed. It is planned to offer equipment trust certificates in aggregate amounts totaling 80% of the cost of the equipment. The remainder will be provided from corporate funds. It is anticipated that all of the box cars will be received in the first half of 1978 with 75 cars having been received late in December, 1977.

One of the corporate financial objectives is to achieve results of operations and financial position each year which will warrant a bond rating of A or better, in order that equipment can be financed at reasonable rates. The long-range financial plans of both Trailer Train and Railbox are structured each year in a manner which, if attained, will provide adequate coverages of fixed charges and debt maturities and a declining ratio of long-term debt to total capitalization. As a result of this planning and the timely response of the Board of Directors to required rate increases, these financial criteria have been met in each of the past six years. See "Five Year Summary of Financial Data" shown later in this report.

"Laboratory on Wheels"



Wilbur R. Shannon, Vice President Equipment

The Trailer Train flat cars, together with Railroad cars, comprise the largest private car line fleet in the free world, travelling 4.0 billion miles a year and under load a high percentage of the time. This situation affords a unique opportunity to study improved designs, effect of wear on various kinds of metals, improved parts and components, new maintenance methods and new car types. For this reason the nearly 90,000 units of equipment are virtually a "Laboratory on Wheels."

As the original Trailer Train car fleet grew, various car components exhibited high rates of wear. This was due to the fact that, when the first standardized piggyback cars were placed in service more than 20 years ago, experience with long freight cars was limited. It was not known, for example, how long conventional components such as center plates, wheels, axles and bearings would last. This was also true of specialties such as trailer hitches and long-shank couplers in the high mileage and high utilization service which is typical of piggyback operations.

Therefore, from the beginning, cars scheduled for maintenance have been studied to determine the proper mileage intervals for major maintenance service. Various sources for improved components were utilized. Efforts were concentrated on developing cost-effective improvements to such critically important components as couplers, wear plates, and truck friction elements. Because of the high average mileage of piggyback cars, much could be learned about the performance of improved car parts in a relatively short time span.

In order to assure the consistent reliability and safety of the flat car fleet, criteria were established for permitting introduction of new ideas and concepts. Thus, a policy of analytical and economic review, physical testing, and in-service testing was developed.

Potential ideas are first subjected to appropriate analytical procedures. This may involve a brief mathematical stress analysis or full-scale computer simulation. Next, a cost benefit analysis is applied to the idea to determine its expected payback period, return on investment, and/or its economic effect on other components or segments of the fleet. Sometimes this evaluation requires an in-service test.

The most promising ideas are progressed to the next stage, physical testing. These ideas are usually incorporated into a test program such as that run with the cooperation of the Missouri Pacific Railroad Company. In this example of cooperative research, a number of truck-related devices, as well as two advanced-concept truck designs, were evaluated in an instrumented over-the-road test. Measurements of car ride quality were recorded and the data were reduced and plotted with the aid of a computer program developed by a leading railroad equipment supplier. Analysis of the data resulted in confirmation of the suitability of one device for



Video monitoring of ride quality tests.

"Laboratory on Wheels"

(Continued)



Willard H. Thompson, Vice President
Fleet Management

reducing harmful truck oscillations. The analysis also demonstrated the potential for improved ride for both of the advanced-concept trucks. As a result, a small number of the devices were applied to cars in intermodal service. The life and performance of the devices were thus further evaluated. Certain of these eventually became standard for all new flat cars as well as for cars undergoing major maintenance, and are currently being field-tested on Railbox cars.

In addition, a limited number of the first advanced-concept trucks is currently in the field testing stage. Data will be collected which will enable the Company to develop the cost/benefit ratio for this truck. The second advanced-concept truck is awaiting field testing.

This is but one example of how products are evaluated by Trailer Train. There are many others. Acting in concert with other groups such as the Association of American Railroads (AAR), Federal Railroad Administration (FRA), Track Train Dynamics, owner railroads and suppliers, Trailer Train provides care for test programs.

Currently under study is a wheel wear test program which will be run in cooperation with the AAR. Wheels of various classes (i.e., various types of heat treatment) will be applied to a select group of flat cars for life-cycle cost evaluation. In addition, three intermodal cars are currently being operated in the F.A.S.T. (Facility for Accelerated Service Testing) train at the FRA's Pueblo, Colorado test facility. In this program, both track structure and rolling stock are being studied. A fully-loaded train of 70 cars is being operated in a continuous loop, as various types of rail, rail connections, ties, ballast, and other track-related hardware are evaluated. The rolling stock is also being studied as the wear on various types of cars, trucks, wheels, couplers, brake shoes, and other components is periodically measured. Wear data from this program will do much to set standards for future railroad equipment.

A further example of the Company's involvement in industry-sponsored research is its participation in the Freight Equipment Environmental Sampling Test (F.E.E.S.T.). This program envisions the operation of a

small group of instrumented freight cars of various types including Trailer Train flat cars, which will be run over various sections and conditions of track in various regions of the country. The track inputs, train action forces, and other force environment data will be recorded for use by Track Train Dynamics personnel in various equipment studies.



Instrumented truck spring used in field testing.

Through Track Train Dynamics, a TOFCOFC car was selected for demonstration testing on the Vertical Shaker System at the FRA's Pueblo, Colorado facility. The test data was used to validate a computer simulation of the car body behavior under various levels of simulated vertical track input. Significantly, this car was the first vehicle ever to be evaluated on this recently installed device. It will also be the first vehicle to be tested on the soon-to-be completed Roll Dynamics Unit (R.D.U.) currently under construction in Pueblo.



Data recording equipment used in over-the-road tests.



"Laboratory on Wheels"

(Continued)



Robert J. Williams, Vice President
General Counsel and Secretary



Intermodal flatcar being moved onto the vertical shaker system.

The R.D.U. is a mammoth dynamometer consisting of eight large rollers onto which a complete vehicle is placed. The rollers support the vehicle and, as they rotate, simulate the motion of the vehicle at any desired speed up to 288 mph. Thus, the high speed behavior of the car and its running gear can be studied in a controlled laboratory environment.

Work with the FRA includes the Lightweight Flatcar Program. In this experiment, two "skeletonized" flatcars are being operated on the Atchafalaya.

Topeka and Santa Fe Railroad along with a conventional TOFC/COFC car of Trailer Train ownership. The riding qualities and wear characteristics of the three cars are being compared and it is hoped that information will be gathered that can be used in the development of future intermodal equipment.

The FRA is sponsoring research for improved TOFC service under the subject of aerodynamic drag measurements. The Company is cooperating in this program and has



Intermodal flatcar in position on the R.D.U.

"Laboratory on Wheels"

(Continued)



Intermodal Trailer under test on the Intermodal Trailer System.

supplied two piggyback cars to the FRA. They are being used to run full-scale tests to measure aerodynamic drag on trailers in TOFC service. These will be used in conjunction with wind tunnel tests of various TOFC configurations, to provide information for the FRA's Intermodal Network Study, a study in which the Company is also participating. This study treats various aspects of intermodal transportation and is directed at improving it over the long term.

Another FRA-funded activity in which the Company participates is the Truck Design Optimization Program (TDOP). Acting as one of a group of fifteen industry consultants, Trailer Train's participation in this effort began in 1974 with TDOP Phase I, and is continuing now with TDOP Phase II. TDOP's objective is to foster the development and application of improved freight car trucks. It uses the methods of computer

simulation, field testing, and economic analysis much in the same way as the Company has attempted to foster the development of component improvements.

Other component improvements have resulted from joint activities such as the AAR Trailer Train 28-inch wheel study. Originally begun to solve a specific problem, the study resulted in much new information on wheel stress distributions. As a result of the study, improved wheel designs were developed and became industry standards. Moreover, further research on this subject was undertaken with the cooperation of the AAR and two new wheel designs were developed. Thus research, which was initiated to solve a specific problem, was carried a step

"Laboratory on Wheels"

(Continued)

further in developing an important design improvement. The concept of computer modeling of railroad wheels, pioneered in this research, is now becoming the industry's standard method of design evaluation and approval.

Each test, project, program, and effort has been designed to yield practical, useable information. Much of it has been applied to the fleet or has been used to solve equipment-related problems. Research and test efforts are coordinated with industry research plans to the extent practicable. In some instances, however, studies are geared to the unique requirements of the Company's equipment.

As the development, design, construction, and testing of a "next generation" TOFC car are initiated, all of the techniques developed over the years will be examined. The data on car dynamics, wear, product life, and component reliability will become invaluable in this new effort. Just as similar information was gathered a decade ago when the first TOFC-COFC prototype car was developed, the spirit of cooperative research will again prevail as the TOFC prototype car becomes a reality.



A portion of FRA's Data Acquisition System at the Pueblo, Colorado test facility

1977 Financial Reports (IN MILLIONS)



Henry V. Logan
Controller

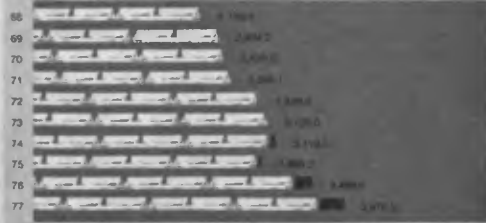
Cost of Equipment (Owned & Leased)



Car Rental Revenue



Total Annual Mileage (All Equipment)



RelBox

Trailer Train Company

Consolidated Balance Sheets

December 31, 1977 and 1976

| | 1977 | 1976 |
|---|----------------|----------------|
| Assets | | |
| Cash and short-term investments (note 2) | \$ 68,530,910 | \$ 36,676,139 |
| Receivables (Note 4) | | |
| Per diem and mileage | 58,361,414 | 68,625,402 |
| Agency | 12,250,678 | 13,252,303 |
| Miscellaneous | 8,483,159 | 5,540,664 |
| | 77,095,251 | 87,418,369 |
| Less allowance for doubtful receivables | 1,674,473 | 544,332 |
| Net receivables | 75,420,778 | 86,874,037 |
| Maintenance supplies, at cost | 14,206,582 | 10,457,128 |
| Prepaid expenses | 210,614 | 282,455 |
| Total current assets | 158,368,884 | 134,289,759 |
| Special funds for destroyed cars (cash and short-term investments, at cost) | 1,547,187 | 4,325,472 |
| Fixed assets, at cost | | |
| Transportation equipment—railroad cars (Note 3) | 1,184,205,727 | 1,125,009,331 |
| Land, buildings and equipment | 5,497,453 | 3,149,705 |
| | 1,189,703,180 | 1,128,159,036 |
| Less accumulated depreciation | 526,990,250 | 475,907,874 |
| Net fixed assets | 662,712,930 | 652,251,162 |
| Deferred charges | 2,844,670 | 2,745,394 |
| | \$ 825,473,671 | \$ 793,611,787 |
| Liabilities and Stockholders' Equity | | |
| Accounts payable | \$ 41,296,341 | \$ 37,700,954 |
| Accrued interest and equipment rental | 26,541,001 | 24,488,718 |
| Accrued cost of transportation equipment not yet financed | 1,788,000 | 4,762,720 |
| Accrued property taxes | 2,591,835 | 3,437,528 |
| Federal and state income taxes | 4,906,618 | 3,047,834 |
| Total current liabilities before long-term debt installments due within one year | 77,125,795 | 73,437,754 |
| Long-term debt installments due within one year (Note 3) | 59,664,317 | 55,726,627 |
| Total current liabilities | 136,790,112 | 129,166,381 |
| Long-term debt, less installments due within one year (Note 3) | 358,049,023 | 374,126,339 |
| Deferred income taxes (Note 5) | 94,221,718 | 84,999,308 |
| Stockholders' equity | | |
| Capital stock of \$1 par value | | |
| Authorized 22,500 shares | 20,500 | 20,500 |
| Issued 20,500 shares | 4,854,975 | 4,854,975 |
| Additional paid-in capital | 231,537,343 | 200,444,284 |
| Retained income | 236,412,818 | 205,319,759 |
| Total stockholders' equity | \$ 825,473,671 | \$ 793,611,787 |

Note: The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Income and Retained Income

For The Years Ended December 31, 1977 and 1976

| | | 1977 | 1976 |
|-----------------------------|--|---------------|---------------|
| Revenue | | \$318,811,422 | \$290,912,428 |
| Operating Expenses | Car maintenance | 123,731,219 | 103,437,321 |
| | Depreciation | 50,347,882 | 48,530,438 |
| | Equipment rental (Note 7) | 47,032,457 | 43,510,945 |
| | Personal property and other taxes | 8,885,149 | 7,612,143 |
| | General and administrative expenses | 11,121,124 | 8,541,599 |
| | Total operating expenses | 241,117,831 | 211,632,446 |
| | Operating income | 77,693,591 | 79,279,982 |
| Other Deductions and Income | Interest | 32,601,661 | 34,424,765 |
| | Amortization of debt expenses | 419,261 | 395,960 |
| | Interim financing charges | 529,475 | 13,684 |
| | Total other deductions | 33,550,397 | 34,834,409 |
| | Other income, principally interest | 4,273,943 | 2,592,626 |
| | Net other deductions and income | 29,276,454 | 32,241,783 |
| | Income before provision for income taxes | 48,417,137 | 47,038,199 |
| | Provision for income taxes (note 5) | 17,324,078 | 16,504,323 |
| | Net income | \$ 31,093,059 | \$ 30,533,876 |
| | Per share | \$ 1.517 | \$ 1.489 |
| Retained Income | Balance at beginning of year | \$200,444,284 | \$169,910,408 |
| | Net income for the year | 31,093,059 | 30,533,876 |
| | Balance at end of year | \$231,537,343 | \$200,444,284 |

NOTE: The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Financial Position

For The Years Ended December 31, 1977 and 1976

| | 1977 | 1976 |
|---|---------------|---------------|
| Funds were provided by | | |
| Operations | | |
| Net income | \$ 31,093,059 | \$ 30,533,676 |
| Changes not requiring use of funds | | |
| Depreciation and amortization | 50,883,032 | 49,147,010 |
| Deferred income taxes | 9,244,486 | 13,353,739 |
| Total from operations | 91,220,579 | 93,031,625 |
| Equipment financing | 45,000,000 | 16,869,260 |
| Funds received for destroyed transportation equipment | 5,362,200 | 4,807,660 |
| Other items, net | 2,179,364 | (2,875,494) |
| Total funds provided | 143,762,143 | 111,833,051 |
| Funds were applied to | | |
| Acquire transportation equipment ** | 63,925,728 | 31,258,782 |
| Acquire land, buildings and equipment | 2,303,705 | 503,372 |
| Retire debt | 57,141,826 | 61,241,996 |
| Total funds applied | 123,371,059 | 93,004,150 |
| Increase in working capital* | \$ 20,391,084 | \$ 18,828,901 |
| Changes in working capital components* | | |
| Increase (decrease) in current assets | | |
| Cash and short-term investments | \$ 31,854,771 | \$ 13,382,239 |
| Net receivables | (11,453,259) | 21,795,972 |
| Maintenance supplies | 3,749,454 | 1,902,821 |
| Prepaid expenses | (71,841) | 214,901 |
| | 24,079,125 | 37,295,933 |
| Increase (decrease) in current liabilities * | | |
| Accounts payable | 3,597,387 | 6,582,286 |
| Accrued interest and equipment rental | 2,052,283 | 4,608,629 |
| Accrued property taxes | (845,693) | (501,814) |
| Federal and state income taxes | 1,858,784 | 3,015,211 |
| Accrued cost of transportation equipment not yet financed | (2,974,720) | 4,762,720 |
| | (3,688,041) | 18,467,032 |
| Increase in working capital* | \$ 20,391,084 | \$ 18,828,901 |
| *Exclusive of long-term debt due within one year | | |
| **Exclusive of equipment obtained under operating leases | \$ 41,149,119 | \$ 81,900,442 |

NOTE: The accompanying notes are an integral part of the consolidated financial statements.

Notes To Consolidated Financial Statements

December 31, 1977 and 1976

- (1) Significant accounting policies are summarized below to assist the reader in reviewing the consolidated financial statements and other data contained in this report.
- (a) **Principles of Consolidation**
The consolidated financial statements include the accounts of Trailer Train Company and its wholly-owned subsidiaries, American Rail Box Car Company, Hamburg Industries, Inc. and Calpro Company, after elimination of transactions between the companies. Consolidating financial schedules are included as supplementary data.
- (b) **Car Rental Revenue**
Car rental revenues are recorded on an estimated basis until actual car usage is reported. This procedure generally requires two months, and estimates have proven to be accurate within acceptable limits.
- (c) **Depreciation**
Depreciation on transportation equipment is recorded in the accounts on a straight-line basis at annual rates applied to the asset group cost beginning with the month following the date of acquisition. The rates are calculated to recover the cost less estimated salvage value over a period of twenty to twenty-five years. Depreciation on other equipment and buildings is recorded on a straight-line basis over their estimated useful lives of generally eight to thirty-three years.
- (d) **Maintenance**
Maintenance expenditures are expensed as incurred in accordance with established industry practice. When major maintenance is performed near the end of the useful life of a car, such costs are capitalized and depreciated over the estimated extended useful life of the car.
- (e) **Federal Income Taxes**
The Company and its subsidiaries file consolidated Federal income tax returns. Provision has been made for deferred income taxes, which result from timing differences in the recognition of certain expenses, principally depreciation, for income tax and financial reporting purposes. In computing deferred income taxes, recognition has been given to investment tax credits attributable to equipment purchases under the flow through method of accounting for such credits.
- (f) **Retirement of Equipment**
The cost of transportation equipment retired is credited to the fixed asset account and such cost, less salvage proceeds, is charged to the related accumulated depreciation account. Upon retirement of other equipment and buildings, such cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses on sale or other disposition are reflected in income.

(2)
Cash and
Short-Term
Investments

At December 31, 1977 and 1976, cash and short-term investments consisted of the following:

| | 1977 | 1976 |
|--------------------------------|-----------------|----------------|
| Cash net of outstanding checks | \$ (10,900,202) | \$ (2,522,966) |
| Marketable securities | 79,431,112 | 39,199,105 |
| Total | \$ 68,530,910 | \$ 36,676,139 |

Marketable securities are stated at cost, which approximates market value.

Notes to Consolidated Financial Statements (Continued)

December 31, 1977 and 1976

(3)
Long-Term
Debt

Transportation equipment purchases have been financed through equipment purchase obligations which mature serially. Security title to the related equipment is retained for the lenders by trustees under equipment trusts or assignees of equipment manufacturers under conditional sale agreements until the obligations are paid in full.

Stockholders have purchased a total of \$20,000,000 principal amount of thirty year subordinated debentures, of which \$10,000,000 were issued in 1967 and \$10,000,000 in 1969. Payments on the subordinated notes would not be permitted if an event of default were to exist on any senior issue of long-term debt. At December 31, 1977 and 1976, long-term debt consisted of the following:

| | 1977 | 1976 |
|---|----------------------|----------------------|
| Conditional sale agreements, interest at 4.40% to 8.50% maturing serially to 1991 | \$ 88,853,591 | \$113,103,799 |
| Equipment trusts, interest at 4.375% to 10.50% maturing serially to 1992 | 308,792,266 | 296,330,398 |
| Lease purchase agreements, interest at 4.0% to 4.675% maturing serially to 1978 | 67,483 | 140,769 |
| | 397,713,340 | 409,574,966 |
| Subordinated notes, interest at 6.50% maturing 1997 | 10,000,000 | 10,000,000 |
| Subordinated notes, interest at 7.50% maturing 1999 | 10,000,000 | 10,000,000 |
| Note of subsidiary company, under revolving credit agreement, interest at 6.5% | — | 280,000 |
| | 417,713,340 | 429,854,966 |
| Due within one year | 59,664,317 | 55,726,627 |
| | <u>\$358,049,023</u> | <u>\$374,128,339</u> |

The amount of long-term debt maturing during each of the five years subsequent to December 31, 1977 is as follows:

| | |
|------|--------------|
| 1978 | \$59,664,317 |
| 1979 | 57,759,832 |
| 1980 | 51,821,835 |
| 1981 | 44,861,301 |
| 1982 | 39,344,155 |

(4)
Accounts
Receivable

On April 1, 1976, Consolidated Rail Corporation (ConRail) commenced operating the lines of the former Penn Central, Erie Lackawanna, Reading and other northeast railroads in reorganization, all of which were users of the Company's equipment. While ConRail has continued to pay all charges due for the use of the Company's equipment for periods subsequent to April 1, 1976, there remains approximately \$4,449,000 in accounts receivable due from the railroads' estates for use of the Company's equipment during periods prior to April 1, 1976.

The Company anticipates that payment of these obligations will be received during 1976 from funds which have been made available as a result of legislation enacted as part of the Railroad Revitalization and Regulatory Reform Act of 1976, as amended, as well as other funds in the estates.

Notes to Consolidated Financial Statements (Continued)

December 31, 1977 and 1976

(5) Provision for Income Taxes

The provision for income taxes is comprised of the following components:

| | 1977 | 1976 |
|--------------------|---------------------|---------------------|
| Federal — Deferred | \$ 8,665,753 | \$12,789,017 |
| — Current | 7,639,207 | 2,927,544 |
| State — Deferred | 578,735 | 561,722 |
| — Current | 440,383 | 226,040 |
| | <u>\$17,324,078</u> | <u>\$16,504,323</u> |

The effective tax rate on income before provision for income taxes is less than the Federal statutory tax rate of 48%. The following table reconciles the statutory tax rate to the effective tax rate:

| | 1977 | 1976 |
|----------------------------|--------------|--------------|
| Federal statutory tax rate | 48.0% | 48.0% |
| State income taxes net of | | |
| Federal tax benefit | 1.0 | .8 |
| Investment tax credits | (13.2) | (13.7) |
| Effective tax rate | <u>35.8%</u> | <u>35.1%</u> |

In computing the provision for income taxes, recognition has been given to investment tax credits amounting to \$6,418,000 in 1977 and \$6,464,000 in 1976. As of December 31, 1977, the Company has utilized all available investment tax credits for financial reporting purposes.

For Federal income tax purposes, the Company has available at December 31, 1977, \$28,394,000 of investment tax credit carryforwards, which, if unused, would expire as follows:

| Year | Investment Tax Credit |
|------|-----------------------|
| 1978 | \$2,724,000 |
| 1979 | 4,138,000 |
| 1980 | 5,113,000 |
| 1981 | 3,589,000 |
| 1982 | 3,263,000 |
| 1983 | 3,149,000 |
| 1984 | 6,418,000 |

Tax returns have been examined by the Internal Revenue Service through 1968.

(6) Pension Plans

Trailer Train Company has a non-contributory pension plan which is integrated with the Federal Railroad Retirement Act for all its employees. Pension expense for 1977 and 1976, including current cost and a portion of prior service cost (amortized over ten years), was \$391,006 and \$316,405, respectively, and such amounts have been paid into the pension trust fund. As of January 1, 1977 the market value of the assets of the pension fund exceeded the present value of vested benefits by approximately \$277,000 and as of January 1, 1976 the present value of vested benefits exceeded the market value of the assets by approximately \$118,000.

Hamburg Industries, Inc. has two non-contributory pension plans integrated with the Federal Railroad Retirement Act, which together cover all of its employees. Pension expense for 1977 and 1976, including current cost and a portion of prior service cost (amortized over ten and thirty years), was \$65,818 and \$55,220, respectively, and such amounts have been paid into the trust funds or accrued in the accounts. The market value of assets in both pension funds, as of January 1, 1977 and 1978 exceeded the present value of vested benefits by approximately \$65,000 and \$16,000 respectively.

Notes to Consolidated Financial Statements (Continued)

December 31, 1977 and 1976

(7)
Leases

As of December 31, 1977, Trailer Train Company and American Rail Box Car Company had entered into various operating lease agreements covering a total of 22,229 cars, consisting of 12,845 flat cars and 9,384 boxcars. The terms of the leases are for periods of 15 to 20 years. Certain leases provide for renewal options which give the Company the right to extend the leases at reduced rentals. Minimum rental commitments, including fees payable to guarantors of certain lease obligations, for future years are as follows.

| | Trailer Train Company | American Rail Box Car Company | Total |
|-----------|--------------------------|-------------------------------------|---------------|
| 1978 | \$ 24,425,171 | \$ 25,164,277 | \$ 49,589,448 |
| 1979 | 29,792,839 | 25,271,126 | 55,063,965 |
| 1980 | 34,296,839 | 25,191,773 | 59,488,612 |
| 1981 | 34,296,839 | 25,105,337 | 59,402,176 |
| 1982 | 34,296,839 | 25,007,516 | 59,304,355 |
| 1983-1987 | 167,230,088 | 123,308,328 | 290,538,414 |
| 1988-1992 | 114,765,322 | 75,261,236 | 190,026,558 |
| 1993-1996 | 31,120,977 | — | 31,120,977 |

Amounts do not include property taxes, insurance and maintenance payable by the Company. Trailer Train Company has entered into certain lease agreements whereby it unconditionally guarantees principal and interest payments on \$73,733,782 of equipment trust certificates maturing from 1985 to 1989.

In addition, the Company entered into lease agreements covering office equipment and office space requiring aggregate rental of \$4,056,891. Aggregate rental is \$3,550,814 for the period 1978 through 1982; \$506,077 for the period 1983 through 1987.

(8)
Related
Party
Transactions

Trailer Train Company capital stock is owned by twenty-nine operating railroads, the trustees of the estates of two former operating railroads and one freight forwarder. Substantially all consolidated revenues and Trailer Train Company's revenue were generated from Trailer Train Company's stockholders. Of the total revenues generated 19.2% were contributed by Consolidated Rail Corporation and 11.0% were contributed by the Family Lines System. Substantially all repairs performed by railroads included in car maintenance expense were performed by Trailer Train Company stockholders.

(9)
Construction
Contract

On December 14, 1977, Calpro Company entered into a contract for the construction of a maintenance facility in southern California. The contract provides for design, grading, construction, and installation of necessary track and facilities at a total cost of approximately \$6,300,000, subject to changes as agreed mutually between the contractor and Calpro. The facility is scheduled to be completed one year from the date construction commences.

Notes to Consolidated Financial Statements (Continued)

December 31, 1977 and 1976

(10)
Replacement
Costs of
Transportation
Equipment
(Unaudited)

The cost to replace the Company's productive capacity, defined generally as the number of cars in its combined fleets, would require a substantially greater capital investment than was required to purchase the current fleet. The impact of inflation on the costs of replacement would be cumulative, owing to the long-lived nature of the Company's equipment. The increases in capital investment would cause corresponding increases in the related costs of ownership, namely depreciation and lease rental expenses. The Company believes, however, that continuing improvements in car design and materials will have the effect of reducing lifetime maintenance expenses.

The actual replacement of individual units will of necessity occur over a prolonged period of time and the resulting changes in expenses would occur on a marginal basis as actual replacements were made. Additionally, the decision to replace productive capacity would be based upon an analysis of conditions in existence at the time a replacement program is considered, such as the availability of the market served and the utilization of existing equipment.

The Company has achieved a generally satisfactory relationship between revenues and the costs of operating its equipment, and it believes that this relationship would be preserved with the advent of a replacement program.

Reference is made to the Company's Annual Report Form 10-K (a copy of which is available upon request), containing additional quantitative information with respect to the estimated replacement costs of productive capacity at December 31, 1977.

Report of
Independent
Certified
Public
Accountants

The Board of Directors of Trailer Train Company

We have examined the consolidated balance sheets of Trailer Train Company and subsidiaries as of December 31, 1977 and 1976 and the related consolidated statements of income and retained income and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Trailer Train Company and subsidiaries at December 31, 1977 and 1976 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. The accompanying consolidating financial schedules have been subjected to the same auditing procedure and, in our opinion, are stated fairly in all material respects when considered in conjunction with the consolidated financial statements taken as a whole.

Chicago, Illinois
February 3, 1978

PLAT, MARWICK, MITCHELL & CO.

Notes to Consolidated Financial Statements (Continued)

December 31, 1977 and 1976

(7)
Leases

As of December 31, 1977, Trailer Train Company and American Rail Box Car Company had entered into various operating lease agreements covering a total of 22,229 cars, consisting of 12,845 flat cars and 9,384 boxcars. The terms of the leases are for periods of 15 to 20 years. Certain leases provide for renewal options which give the Company the right to extend the leases at reduced rentals. Minimum rental commitments, including fees payable to guarantors of certain lease obligations, for future years are as follows:

| | Trailer Train Company | American Rail Box Car Company | Total |
|-----------|--------------------------|-------------------------------------|---------------|
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| 1980 | 34,296,839 | 25,191,773 | 59,488,612 |
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| 1993-1995 | 31,120,977 | — | 31,120,977 |

Amounts do not include property taxes, insurance and maintenance payable by the Company. Trailer Train Company has entered into certain lease agreements whereby it unconditionally guarantees principal and interest payments on \$73,733,782 of equipment trust certificates maturing from 1985 to 1989.

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Trailer Train Company capital stock is owned by twenty-nine operating railroads, the trustees of the estates of two former operating railroads and one freight forwarder. Substantially all consolidated revenues and Trailer Train Company's revenue were generated from Trailer Train Company's stockholders. Of the total revenues generated 19.2% were contributed by Consolidated Rail Corporation and 11.0% were contributed by the Family Lines System. Substantially all repairs performed by railroads included in car maintenance expense were performed by Trailer Train Company stockholders.

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Construction
Contract

On December 14, 1977, Calpro Company entered into a contract for the construction of a maintenance facility in southern California. The contract provides for design, grading, construction, and installation of necessary track and facilities at a total cost of approximately \$6,300,000, subject to changes as agreed mutually between the contractor and Calpro. The facility is scheduled to be completed one year from the date construction commences.

Notes to Consolidated Financial Statements (Continued)

December 31, 1977 and 1976

(10)
Replacement
Costs of
Transportation
Equipment
(Unaudited)

The cost to replace the Company's productive capacity, defined generally as the number of cars in its combined fleets, would require a substantially greater capital investment than was required to purchase the current fleet. The impact of inflation on the costs of replacement would be cumulative, owing to the long-lived nature of the Company's equipment. The increases in capital investment would cause corresponding increases in the related costs of ownership, namely depreciation and lease rental expenses. The Company believes, however, that continuing improvements in car design and materials will have the effect of reducing lifetime maintenance expenses.

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The Company has achieved a generally satisfactory relationship between revenues and the costs of operating its equipment, and it believes that this relationship would be preserved with the advent of a replacement program.

Reference is made to the Company's Annual Report Form 10-K (a copy of which is available upon request), containing additional qualitative information with respect to the estimated replacement costs of productive capacity at December 31, 1977.

Report of
Independent
Certified
Public
Accountants

The Board of Directors of Trailer Train Company

We have examined the consolidated balance sheets of Trailer Train Company and subsidiaries as of December 31, 1977 and 1976 and the related consolidated statements of income and retained income and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Trailer Train Company and subsidiaries at December 31, 1977 and 1976 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. The accompanying consolidating financial schedules have been subjected to the same auditing procedure and, in our opinion, are stated fairly in all material respects when considered in conjunction with the consolidated financial statements taken as a whole.

Chicago, Illinois
February 3, 1978

PLAT, MARWICK, MITCHELL & CO.

Consolidating Schedule of Financial Position

December 31, 1977

| Assets | Trailer Train Company | Hamburg Industries, Inc. | American Rail Box Car Company | Calpro Company | Eliminations | Consolidated |
|--|-----------------------------|--------------------------------|-------------------------------------|-------------------|-----------------|----------------|
| Cash and short-term investments | \$ 33,901,842 | \$ 9,790 | \$34,563,825 | \$ 55,453 | \$ | \$ 68,530,910 |
| Receivables | | | | | | |
| Per diem and mileage | 47,977,094 | | 8,384,320 | | | 56,361,414 |
| Agency | 12,250,878 | | | | | 12,250,878 |
| Miscellaneous | 9,566,320 | 3,828,805 | 998,228 | 789 | (5,910,583) | 8,483,159 |
| Notes receivable | | | | | | |
| intercompany | — | | 480,000 | | (480,000) | — |
| | 69,794,032 | 3,828,805 | 9,882,548 | 789 | (6,390,983) | 77,095,251 |
| Less allowance for doubtful receivables | 1,507,610 | | 166,863 | | | 1,674,473 |
| Net receivables | 68,286,482 | 3,828,805 | 9,695,685 | 789 | (6,390,983) | 75,420,778 |
| Maintenance supplies | 12,048,220 | 2,152,163 | 6,199 | | | 14,206,582 |
| Prepaid expenses | 192,255 | 18,359 | | | | 210,614 |
| Total current assets | 114,428,799 | 6,009,117 | 44,265,709 | 56,242 | (6,390,983) | 158,368,884 |
| Special funds for destroyed cars (cash and short-term investments) | 1,445,736 | | 101,451 | | | 1,547,187 |
| Fixed assets | | | | | | |
| Transportation equipment— | | | | | | |
| railroad cars | 1,167,762,315 | | 16,615,516 | | (172,104) | 1,184,205,727 |
| Land, buildings and equipment | 1,015,434 | 3,052,901 | | 1,429,118 | | 5,497,453 |
| | 1,168,777,749 | 3,052,901 | 16,615,516 | 1,429,118 | (172,104) | 1,189,703,180 |
| Less accumulated depreciation | 525,801,729 | 383,705 | 804,816 | | | 526,990,250 |
| Net fixed assets | 642,976,020 | 2,669,196 | 15,810,700 | 1,429,118 | (172,104) | 662,712,930 |
| Investment in subsidiaries | 29,839,722 | | | | (29,839,722) | — |
| Deferred charges | 1,933,365 | 206,081 | 704,887 | 337 | | 2,844,670 |
| Total | \$ 790,623,642 | \$8,884,394 | \$60,882,747 | \$1,485,697 | \$ (36,402,809) | \$ 825,473,671 |

Consolidating Schedule of Financial Position

December 31, 1977

| Liabilities and Stockholders' Equity | Trailer Train Company | Hamburg Industries, Inc. | American Rail Box Car Company | Calpro Company | Eliminations | Consolidated |
|---|-----------------------------|--------------------------------|-------------------------------------|-------------------|----------------|---------------|
| Accounts payable | \$ 42,578,640 | \$3,228,609 | \$ 1,395,524 | \$ 4,908 | \$ (5,909,340) | \$ 41,298,341 |
| Notes payable—intercompany | | | | 480,000 | (480,000) | |
| Accrued interest and equipment rental | 17,722,184 | | 8,818,817 | 1,643 | (1,643) | 26,541,001 |
| Accrued cost of transportation equipment not yet financed | | | 1,788,000 | | | 1,788,000 |
| Accrued property taxes | 1,988,031 | | 593,804 | | | 2,581,835 |
| Federal and state income taxes | 799,312 | 798,214 | 3,387,004 | | (77,912) | 4,906,618 |
| Total current liabilities before long-term debt installments due within one year | 63,098,167 | 4,026,823 | 15,983,149 | 486,551 | (6,488,895) | 77,125,795 |
| Long-term debt installments due within one year | 58,901,469 | | 782,648 | | | 59,684,117 |
| Total current liabilities | 121,999,636 | 4,026,823 | 16,745,997 | 486,551 | (6,488,895) | 136,790,112 |
| Long-term debt, less installments due within one year | 348,132,001 | | 9,917,022 | | | 358,049,023 |
| Deferred income taxes | 84,079,187 | 758,578 | 9,383,953 | | | 94,221,718 |
| Total liabilities | 554,210,824 | 4,785,401 | 36,046,972 | 486,551 | (6,488,895) | 589,060,853 |
| Stockholders' equity | | | | | | |
| Capital stock | 20,500 | 1,500,000 | 20,000 | 1,000,000 | (2,520,000) | 20,500 |
| Additional paid-in capital | 4,854,975 | | 1,980,000 | | (1,980,000) | 4,854,975 |
| Retained income | 231,537,343 | 2,598,993 | 22,835,775 | (854) | (25,433,914) | 231,537,343 |
| Total stockholders' equity | 236,412,818 | 4,098,993 | 24,835,775 | 999,146 | (29,933,914) | 236,412,818 |
| Total | \$790,623,642 | \$8,884,394 | \$60,882,747 | \$1,485,697 | \$(36,402,809) | \$825,473,671 |

Consolidating Schedule of Income

For The Year Ended December 31, 1977

| | Trailer Train Company | Hamburg Industries, Inc. | American Rail Box Car Company | Calpro Company | Eliminations | Consolidated |
|---|-----------------------------|--------------------------------|-------------------------------------|-------------------|--------------|---------------|
| Revenue | \$275,970,186 | \$18,182,472 | \$42,037,484 | \$ | \$17,378,722 | \$318,811,422 |
| Operating expenses: | | | | | | |
| Car maintenance | 126,136,267 | 13,946,428 | 880,913 | | (17,232,389) | 123,731,219 |
| Depreciation | 49,818,040 | 4,700 | 525,142 | | | 50,347,882 |
| Equipment rental | 21,605,184 | — | 25,427,273 | | | 47,032,457 |
| Personal property and other taxes | 7,352,152 | 17,983 | 1,515,014 | | | 8,885,149 |
| General and administrative expenses | 8,511,720 | 1,346,987 | 1,262,417 | | | 11,121,124 |
| Total operating expenses | 213,423,363 | 15,316,098 | 29,610,759 | | (17,232,389) | 241,117,831 |
| Operating income | 62,546,825 | 2,866,374 | 12,426,725 | | (146,333) | 77,693,591 |
| Other deductions and income: | | | | | | |
| Interest | 31,623,541 | 9,184 | 974,268 | 1,643 | (6,976) | 32,601,661 |
| Amortization of debt expense | 360,508 | — | 58,753 | | | 419,261 |
| Interim financing charges | 529,475 | — | — | | | 529,475 |
| Total other deductions | 32,513,524 | 9,184 | 1,033,022 | 1,643 | (6,976) | 33,550,397 |
| Other income (expenses) net | 2,621,091 | 2,149 | 1,683,450 | | (32,747) | 4,273,943 |
| Net other deductions and income | 29,892,433 | 7,035 | (850,428) | 1,643 | 25,771 | 29,278,454 |
| Income before provision for income taxes | 32,654,392 | 2,859,339 | 13,077,153 | (1,643) | (172,104) | 48,417,137 |
| Provision for income taxes | 9,903,607 | 1,385,911 | 6,113,261 | (789) | (77,912) | 17,324,074 |
| Net income | \$ 22,750,785 | \$ 1,473,428 | \$ 6,963,892 | \$ (854) | \$ (94,192) | \$ 31,093,059 |

Five Year Summary of Consolidated Financial Data

(Thousands of Dollars)

| | 1977 | 1976 | 1975 | 1974 | 1973 |
|--|-------------|-------------|-------------|-------------|-------------|
| Income Statements | | | | | |
| Revenue | \$ 318,811 | \$ 290,912 | \$ 225,333 | \$ 193,226 | \$ 166,983 |
| Expenses | | | | | |
| Car maintenance | 123,731 | 103,437 | 66,266 | 60,119 | 45,847 |
| Depreciation | 50,348 | 48,530 | 47,628 | 47,175 | 43,211 |
| Interest | 32,602 | 34,425 | 35,904 | 36,960 | 35,665 |
| Equipment rental | 47,032 | 43,511 | 24,491 | 11,473 | 4,370 |
| Property and other taxes | 8,885 | 7,612 | 6,630 | 6,916 | 6,297 |
| Other expenses and income (net) | 7,796 | 6,359 | 8,066 | 6,061 | 4,429 |
| | 270,394 | 243,874 | 188,985 | 168,704 | 139,819 |
| Income before provision for income taxes | 48,417 | 47,038 | 36,348 | 24,522 | 27,164 |
| Provision for income taxes | 17,324 | 16,504 | 9,308 | 6,355 | 7,020 |
| Net income | \$ 31,093 | \$ 30,534 | \$ 27,040 | \$ 18,167 | \$ 20,144 |
| Per share | \$ 1,517 | \$ 1,489 | \$ 1,319 | \$ 886 | \$ 983 |
| Balance Sheets | | | | | |
| Working capital* | \$ 81,243 | \$ 60,852 | \$ 42,023 | \$ 23,783 | \$ 21,419 |
| Total debt | 417,713 | 429,855 | 474,228 | 507,967 | 528,761 |
| Retained income | 231,537 | 200,444 | 169,910 | 142,871 | 124,704 |
| Transportation equipment, at cost | | | | | |
| — Owned | \$1,184,206 | \$1,125,009 | \$1,098,024 | \$1,066,698 | \$1,019,125 |
| — Leased | 579,691 | 540,031 | 459,256 | 228,644 | 117,979 |

*Exclusive of long-term debt due within one year

Management's Discussion and Analysis of Financial Results

Consolidated income before taxes for 1977 was \$48.4 million, \$1.4 million higher than 1976, and \$12.1 million higher than 1975.

The table below sets forth the contributions to consolidated revenue and income before provision for income taxes by Trailer Train, Railbox, Hamburg and Calpro.

| | YEARS ENDED DECEMBER 31, | | |
|--|--------------------------|-----------|-----------|
| | 1977 | 1976 | 1975 |
| Revenue | | | |
| Trailer Train | \$275,970 | \$244,302 | \$208,999 |
| Railbox | 42,037 | 45,990 | 15,850 |
| Hamburg ¹ | 18,182 | 10,324 | 8,876 |
| | 336,189 | 300,616 | 233,725 |
| Eliminate inter-company charges for maintenance | 17,378 | 9,704 | 8,392 |
| Consolidated | \$318,811 | \$290,912 | \$225,333 |
| Income Before Provision for Income Taxes | | | |
| Trailer Train | \$ 32,664 | \$ 26,510 | \$ 27,201 |
| Railbox ² | 13,077 | 19,471 | 8,198 |
| Hamburg | 2,859 | 1,057 | 948 |
| Calpro | (1) | — | — |
| | 48,599 | 47,038 | 36,347 |
| Eliminate inter-company profit in capital improvements | 172 | — | — |
| Consolidated | \$ 48,417 | \$ 47,038 | \$ 36,347 |

¹ Hamburg has been engaged principally in performing maintenance service and capital improvements on Trailer Train freight cars.

² The relatively high ratio of income to revenue for Railbox in years prior to 1977 results from the following circumstances: (a) the initial rate structure was calculated to permit Railbox to accumulate retained income and establish a financial position within a relatively short period of time which would enable it to finance additional equipment on its own credit without guarantee by stockholders of Trailer Train; (b) average days in revenue service were higher than planned and (c) maintenance expenses were minimal due to the newness of the fleet. These relatively high ratios were reduced for 1977 and future years by reduction in Railbox car hire rates recommended by management and approved by the Board of Directors. These rate reductions were 15% effective April 1, 1976 and 10% effective January 1, 1977.

1977 Versus 1976

Consolidated car rental revenue increased by \$27.9 million (9.6%) from 1976 to 1977. Revenue for Trailer Train increased by \$31.7 million. Increases in Trailer Train car hire rates of 7% on April 1, 1978 and 7% on April 1, 1977 contributed \$18.2 million to the increase. A higher percentage of flatcars in service added \$3.7 million, higher average miles per day on intermodal cars added \$3.3 million and the increase in the average fleet size added \$6.5 million. Railbox revenue was lower in 1977 as the result of a 15% reduction in car hire charges effective April 1, 1976, and a 10% reduction effective on January 1, 1977. Those rate reductions reduced revenue by \$6.7 million, which was partially offset by a \$2.7 million revenue increase due to increased fleet size.

Management's Discussion and Analysis of Financial Results

(Continued)

Consolidated car maintenance expense increased by \$20.3 million (19.6%) as a result of an increase in the number of cars repaired and a combination of higher material and labor costs resulting from inflation and an increase in the extent of work content performed. Approximately \$19.8 million of the increase is attributable to Trailer Train, and the remaining \$0.5 million to Railbox.

Equipment rental increased by a total of \$3.5 million (8.1%) resulting from leveraged lease financing of freight cars delivered in 1976 and 1977. \$2.3 million of the increase applies to Trailer Train and \$1.2 million to Railbox.

Depreciation increased by a total of \$1.8 million (3.7%), \$1.8 million for Trailer Train and \$0.2 million for Railbox, resulting from the purchase of new cars in 1976 and 1977. Interest expense declined \$1.8 million (5.3%) primarily because of a \$4.1 million reduction due to retirement of debt, partially offset by a \$2.3 million increase (\$1.9 million for Trailer Train, \$0.4 million for Railbox) resulting from the financing of new equipment.

General and administrative expenses, which are allocated between Trailer Train and Railbox according to the average size of their respective fleets, increased by \$2.6 million (30.2%). A total of \$1.0 million of the increase resulted from higher salary and office expenses, while the remaining \$1.8 million resulted from a change in the provision for doubtful accounts.

Personal property and other taxes increased by \$1.3 million (16.7%), primarily the result of the increased number of cars in the fleets. Interim financing charges increased by approximately \$0.5 million, resulting from the timing of new long term financing in 1977. Other income increased by \$1.7 million from interest earned on higher temporary cash balances—\$1.0 million for Trailer Train and \$0.7 million for Railbox.

Provision for income taxes increased by approximately \$0.9 million.

1976 Versus 1975

Consolidated car rental revenue increased by \$65.6 million (29.1%) from 1975 to 1976. Revenue for Trailer Train increased by approximately \$35.3 million. Increases in Trailer Train rental rates of 7% on August 1, 1975 and 7% on April 1, 1976 contributed \$20.8 million to the increase. A higher percentage of flatcars in service added \$10.6 million, while an increase in the average fleet size added \$3.3 million. Railbox revenue increased by \$30.1 million. The increased number of boxcars in the Railbox fleet increased revenue by \$34.2 million, and a 15% rate reduction on boxcars effective April 1, 1976 reduced revenue by \$4.4 million.

Car maintenance expense, substantially all of which is attributable to Trailer Train, increased by approximately \$37.2 million (56%) as a result of an increase in the number of cars repaired and a combination of higher material and labor costs resulting from inflation and an increase in work content performed.

Equipment rental expense increased by \$19.0 million. Of the increase, approximately \$16.8 million resulted from additional leveraged lease payments on the Railbox fleet. Ninety-four percent of Railbox cars were lease financed, therefore equipment rental expense increased proportionately with the growth of the fleet. The remaining \$2.2 million of increased equipment rental expense was the result of increased use of leveraged lease financing for new Trailer Train flatcar deliveries in 1975 and 1976.

Personal property and other taxes increased by approximately \$1.0 million due to the growth of the Railbox fleet. Interest expense decreased by approximately \$1.5 million reflecting a net reduction in long term debt outstanding. Interim financing charges decreased by \$0.6 million, due to the reduced time period between new car deliveries and settlement with the car manufacturers.

General and administrative expenses increased by approximately \$0.1 million. Salary and office expenses increased by approximately \$0.6 million, while the collection of receivables previously deemed uncollectible reduced general and administrative expenses by approximately \$0.5 million.

Provision for income taxes increased by a total of \$7.2 million.

Trailer Train Company ♦ and American Rail Box Car Company†

Directors (as of March 22, 1978)

- ♦ J. E. Angel
Vice President - Executive Department
Missouri Pacific Railroad Company
- ♦ P. H. Besser
Executive Vice President
Chicago, Rock Island and Pacific
Railroad Company
- ♦ A. J. Brennan, Jr.
Vice President - Finance and Comptroller
Reading Company
- ♦† C. D. Buford
President
Trailer Train Company
- ♦ R. C. Burton, Jr.
Assistant Vice President - Financial Planning
Burlington Northern, Inc.
- ♦ H. W. Buckleeder
Vice President - Finance
Denver and the Grand Western
Railroad Company
- ♦ B. R. Carr
Comptroller
Chicago and North Western
Transportation Company
- ♦ J. T. Callahan
Executive Vice President - Operations
Chicago System
- ♦ P. H. Galt
President
The American Short Line Railroad Association
- ♦† C. C. Emlington
Senior Vice President - Marketing
Burlington Northern, Inc.
- ♦ J. E. Gress
General Manager
Kansas City Southern Railway Company
- ♦ C. T. Gorton, Jr.
General Manager - TOFC and
Intermodal Operations
Missouri Pacific Railroad Company
- ♦† H. B. Hall
Vice President and Chief Transportation Officer
Norfolk and Western Railroad
- ♦† R. W. Harp
Vice President - Finance
Altoona, Topoka and Santa Fe
Railway Company
- ♦ J. H. Harlow
Senior Vice President - Operations
Burlington Northern, Inc.
- ♦ R. L. Hertz
Vice President - Finance
Chicago System
- ♦ J. W. Hoeland
Vice President - Marketing
Seaboard Coast Line Industries
- ♦ Ralph Huston
Vice President - Traffic
Toledo, Peoria & Western Railroad Company
- ♦† G. H. Kronberg
Vice President - Traffic
Chicago, Milwaukee, St. Paul and
Pacific Railroad Company
- ♦ R. A. Lehmann
Vice President - Transportation
Railway International Corporation
- ♦ A. H. Melach
Assistant Vice President - Transportation
Chicago and North Western
Transportation Company

♦† Officers

- ♦ H. J. McKenzie
Consultant
St. Louis Southeastern Railway Company
- ♦† R. J. McLean
Executive Vice President - Finance
Southern Pacific Transportation Company
- ♦ R. D. Mendahl
Vice President - Marketing
Western Pacific Railroad Company
- ♦† J. J. Newbauer, Jr.
Vice President - Administration
Richmond, Fredericksburg and Potomac
Railroad Company
- ♦ P. P. Novak
Assistant Vice President - Intermodal Automotive
Innovis Central Gulf Railroad
- ♦ J. W. Pratt
Vice President - Planning and Coordination
Seaboard Coast Line Industries
- ♦ H. L. Ransell
Assistant Vice President - Operations
Consolidated Rail Corporation
- ♦† L. C. Ryle, Jr.
Assistant Vice President and Treasurer
Chicago System
- ♦† C. B. Schaeffer
Vice President and Western General Counsel
Union Pacific Railroad Company
- ♦ H. L. Scott, Jr.
General Manager - Motor Power and Equipment
Norfolk and Western Railway Company
- ♦ J. S. Shannon
Vice President - Law
Norfolk and Western Railway Company
- ♦ W. W. Simpson
Vice President - Engineering
Southern Railway Company
- ♦ M. V. Smith
Vice President - Marketing and Sales
Boson and Mann Corporation
- ♦† K. A. Stoecker
Senior Vice President - Finance
Southern Railway Company
- ♦† W. F. Thompson
Senior Vice President - Operations
St. Louis - San Francisco Railway Company
- ♦ R. M. Timmon
Assistant Vice President - Marketing
Denver, Topeka and Iron Mountain Railroad Company
- ♦† J. R. Turbyfill
Vice President - Finance
Norfolk and Western Railroad Company
- ♦† R. V. Wadden
Vice President and Controller
Consolidated Rail Corporation
- ♦† J. L. Williams
Vice President - Operations
Seaboard Coast Line Railroad Company
- ♦† C. F. Zellers, Jr.
Vice President and Secretary
Florida East Coast Railway Company
- ♦ R. R. Ziebarth
Vice President, Secretary and Treasurer
Missouri - Kansas - Texas Railroad Company
- ♦ H. A. Zill, Jr.
Executive Officer
Erie Lackawanna Railway Company

- † C. D. Buford
President
- † Norman L. Reimert
Vice President
- † Francis and Treasurer
- † William R. Brantzen
Vice President
- † Equipment
- † Edward H. Thompson
Vice President
- † Fleet Management
- † Robert J. Williams
Vice President
- † General Counsel and Secretary
- † Henry W. Logan
Controller

Trailer Train Company
300 South Wacker Drive
Chicago, Illinois 60606

♦ Trailer Train Company
† American Rail Box Car Company
* Member Finance Committee
† Director Hamburg Industries, Inc. and Celso Company

No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Purchasers. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. The delivery of this Prospectus shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

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Trailer Train Company



\$20,250,000

**Equipment
Trust Certificates
(Series 39)**

PROSPECTUS

PROSPECTUS

\$20,250,000

APPENDIX "C"

Trailer Train Company

Equipment Trust Certificates, Series 39

*Interest payable May 15 and November 15**Maturities as shown below*

The Equipment Trust Certificates may not be redeemed prior to maturity. The Certificates will be issued in fully registered form in denominations of \$1,000 or an integral multiple thereof. The Certificates will mature serially in 15 annual installments of \$1,350,000 each.

| <i>May 15</i> | <i>Interest Rate</i> | <i>May 15</i> | <i>Interest Rate</i> | <i>May 15</i> | <i>Interest Rate</i> |
|---------------|----------------------|---------------|----------------------|---------------|----------------------|
| 1979 | 8.10% | 1984 | 8.75% | 1989 | 9.00% |
| 1980 | 8.40 | 1985 | 8.80 | 1990 | 9.00 |
| 1981 | 8.60 | 1986 | 8.85 | 1991 | 9.10 |
| 1982 | 8.65 | 1987 | 8.90 | 1992 | 9.15 |
| 1983 | 8.70 | 1988 | 8.95 | 1993 | 9.15 |

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

| | <i>Price to Public(1)</i> | <i>Underwriting Discounts and Commissions(2)</i> | <i>Proceeds to Company(1)(3)</i> |
|------------------------|---------------------------|--|----------------------------------|
| <i>Per Certificate</i> | 100.00% | 0.675% | 99.325% |
| <i>Total</i> | \$20,250,000 | \$136,687.50 | \$20,113,312.50 |

(1) Plus accrued interest from May 15, 1978.

(2) The Company has agreed to indemnify the several Purchasers against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

(3) Before deduction of expenses payable by the Company, estimated at \$130,000.

The Certificates are offered by the several Purchasers when, as and if issued by the Trustee and accepted by the Purchasers and subject to their right to reject orders in whole or in part.

The First Boston Corporation

Bache Halsey Stuart Shields
IncorporatedMerrill Lynch White Weld Capital Markets Group
Merrill Lynch, Pierce, Fenner & Smith IncorporatedLehman Brothers Kuhn Loeb
Incorporated

The date of this Prospectus is May 16, 1978.

IN CONNECTION WITH THIS OFFERING, THE PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE EQUIPMENT TRUST CERTIFICATES HEREBY OFFERED AND OF OUTSTANDING EQUIPMENT TRUST CERTIFICATES OF THE COMPANY AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

Trailer Train Company ("Trailer Train") is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Such reports and other information can be inspected and copied at the offices of the Commission at Room 6101, 1100 L Street, N.W., Washington, D.C.; Room 1228, Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois; Room 1100, Federal Building, 28 Federal Plaza, New York, New York; and Suite 1710, Tishman Building, 10960 Wilshire Boulevard, Los Angeles, California. Copies of such material can be obtained from the principal office of the Commission at 500 North Capitol Street, Washington, D.C. 20549 at prescribed rates.

Additional information regarding the Company and the Equipment Trust Certificates offered hereby is contained in the Registration Statement, and the exhibits relating thereto, in respect of such Certificates, filed with the Commission under the Securities Act of 1933, as amended. For further information pertaining to the Equipment Trust Certificates offered hereby and to the Company, reference is made to the Registration Statement, and the exhibits thereto, which may be inspected by anyone without charge at the office of the Commission at 1100 L Street, N.W., Washington, D.C., and copies of all or any part of it may be obtained from the Commission upon payment of the prescribed fees.

THE COMPANY

Trailer Train is engaged in the business of leasing a fleet of standardized railroad flatcars to railroads in the United States. The flatcar pool, representing the largest private car line fleet in the United States, totaled 79,230 at March 31, 1978, consisting of three basic car classes: those designed to transport highway trailers and cargo containers ("intermodal" cars); those designed to accept special railroad-owned superstructures for the transport of automobiles, trucks and other vehicles ("autorack" cars); and those equipped to transport lumber, farm machinery and other goods and products ("special use" cars).

American Rail Box Car Company ("Railbox"), a wholly-owned subsidiary of Trailer Train, was organized in 1974 to provide a pool of standardized general service boxcars to the railroad industry. At March 31, 1978, the Railbox fleet consisted of 10,936 cars. Another wholly-owned subsidiary, Hamburg Industries, Inc. ("Hamburg"), acquired in 1974, operates a maintenance facility in South Carolina principally for the performance of maintenance service and capital improvements on the Company's freight cars. During 1977, Trailer Train organized a third wholly-owned subsidiary, CALPRO Company ("Calpro"), to construct and operate another such maintenance facility in California which is expected to commence operations in late 1978 (see "Business—Maintenance").

In accordance with established policy, car hire charges for Trailer Train and Railbox cars are set at the lowest levels required to cover expenses, to maintain the fleets in a condition for most efficient operation, and to establish and maintain for Trailer Train and Railbox financial positions enabling them to finance necessary car acquisitions on reasonable terms. Payment of dividends has been considered by the Trailer Train Board of Directors from time to time, but no dividend has ever been declared. Earnings have been reinvested in the expansion of the flatcar fleet.

Although Railbox has no separate officers or employees, the businesses of Trailer Train and Railbox are operated independently of each other and car acquisitions are financed independently, with neither company guaranteeing the obligations of the other. The payment of the principal of and interest on the Equipment Trust Certificates offered hereby is solely the obligation of Trailer Train and such payment is not guaranteed by any other company.

Trailer Train was incorporated in Delaware on November 9, 1955. The capital stock of Trailer Train is owned by 29 operating railroads, the trustees of the estates of two former operating railroads, and one freight forwarding company. See "Business—Litigation" for a description of a proceeding involving Trailer Train and one of such estates. Unless the context otherwise requires, the term "Company" as used herein includes both Trailer Train and its subsidiaries. Trailer Train maintains its principal executive office at 300 South Wacker Drive, Chicago, Illinois 60606. Its telephone number is (312) 786-1200.

PURPOSE OF ISSUE

The net proceeds to Trailer Train from the sale of the Equipment Trust Certificates, Series 39, offered hereby (estimated at \$19,983,000), will be applied to the payment of not more than 80% of the purchase price of approximately 660 new flatcars, all to be acquired after March 31, 1978. The balance of the purchase price (not less than 20% thereof) will be provided by Trailer Train. The aggregate cost of the cars that will secure the Certificates will be at least \$25,312,500.

Other additions to the fleet of flatcars will depend on the requirements of the railroads participating in the Trailer Train pool (see "Business—History and Operation"), all of which are stockholders of Trailer Train. Trailer Train currently estimates that equipment with an aggregate cost of approximately \$154,000,000 will be acquired in 1978 (including the cars to be purchased, in part, with the proceeds of the Certificates offered hereby), compared with equipment having an aggregate cost of approximately \$103,000,000 in 1977. In addition to the proceeds of this offering, funds required for the acquisition of such equipment are expected to be provided by the sale of additional equipment trust certificates, by participation in leveraged lease financings and from funds generated from operations.

Railbox currently estimates that equipment with an aggregate cost of approximately \$117,000,000 will be acquired in 1978 compared to equipment with an aggregate cost of approximately \$2,000,000 in 1977. Funds required for the acquisition of such equipment are expected to be provided by the sale of equipment trust certificates of Railbox and from funds generated from its operations.

CAPITALIZATION

The capitalization of the Company as of December 31, 1977, and as adjusted to give effect to the issuance of the Equipment Trust Certificates (Series 39) offered hereby, is as follows:

| | Outstanding December 31, 1977 | As Adjusted |
|---|-------------------------------------|------------------|
| | (Thousands of Dollars) | |
| Long-Term Debt (including current maturities) (1) | | |
| Trailer Train: | | |
| Conditional Sale Indebtedness | | |
| 4.4% to 6.625% (weighted average 5.39%) due serially to 1986 | \$ 78,174 | \$ 78,174 |
| Equipment Trust Certificates | | |
| Series 1 through 38—4.375% to 10.5% (weighted average 8.32%), final maturities 1978 to 1992 | 308,792 | 308,792 |
| Series 39 (offered hereby) | — | 20,250 |
| 4.0% Lease Purchase Obligation due 1978 | 68 | 68 |
| 6.5% Subordinated Notes due 1997 | 10,000 | 10,000 |
| 7.5% Subordinated Notes due 1999 | 10,000 | 10,000 |
| Railbox: | | |
| 8.5% Conditional Sale Indebtedness due serially to 1991 | 10,679 | 10,679 |
| Total Long-Term Debt | <u>417,713</u> | <u>437,963</u> |
| Stockholders' Equity | | |
| Capital Stock, \$1 Par Value | 21 | 21 |
| (Authorized 22,500 shares; Issued 20,500 shares) | | |
| Additional Paid-In Capital | 4,855 | 4,855 |
| Retained Income | 231,537 | 231,537 |
| Total Stockholders' Equity | <u>236,413</u> | <u>236,413</u> |
| Total Capitalization | <u>\$654,126</u> | <u>\$674,376</u> |

(1) See Note 4 of Notes to Financial Statements for additional information regarding long-term debt obligations, including future maturities.

In addition to the indebtedness shown in the foregoing table, Trailer Train and Railbox are lessees in connection with certain long-term operating leases of flatcars and boxcars. For additional information regarding these and other lease obligations, including future lease payments, see Note 8 of Notes to Financial Statements.

**TRAILER TRAIN COMPANY
(PARENT COMPANY ONLY)**

STATEMENTS OF INCOME AND RETAINED INCOME

The following statements of income and retained income of Trailer Train Company (Parent Company Only) have been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report thereon appears elsewhere in this Prospectus. These statements should be read in conjunction with the financial statements and related notes included elsewhere herein. The numbered notes refer to Trailer Train Company and Subsidiaries Notes to Financial Statements included elsewhere herein.

| | Years Ended December 31, | | | | |
|---|--------------------------|-----------|-----------|-----------|-----------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| | (Thousands of Dollars) | | | | |
| Car rental revenue (Note a) | \$106,983 | \$192,243 | \$208,999 | \$244,302 | \$275,970 |
| Operating expenses: | | | | | |
| Car maintenance | 45,847 | 59,367 | 67,259 | 104,471 | 126,136 |
| Depreciation (Note 3) | 43,211 | 47,115 | 47,620 | 48,222 | 49,818 |
| Equipment rental (Note 8) | 4,370 | 11,434 | 17,090 | 19,267 | 21,605 |
| Personal property and other taxes | 6,297 | 6,915 | 6,497 | 6,569 | 7,352 |
| General and administrative expenses | 5,148 | 6,283 | 7,584 | 6,689 | 8,512 |
| Total operating expenses | 104,873 | 131,114 | 146,050 | 185,218 | 213,423 |
| Operating income | 62,110 | 61,129 | 62,949 | 59,084 | 62,547 |
| Other deductions: | | | | | |
| Interest | 35,665 | 36,931 | 35,830 | 33,905 | 31,624 |
| Amortization of debt expense | 376 | 375 | 373 | 358 | 361 |
| Interim financing charges | 805 | 1,985 | 633 | 14 | 529 |
| Total other deductions | 36,846 | 39,291 | 36,836 | 34,177 | 32,514 |
| Other income, principally interest | 1,900 | 2,241 | 1,108 | 1,603 | 2,621 |
| Net other deductions and income | 34,946 | 37,050 | 35,748 | 32,574 | 29,893 |
| Income before provision for income taxes | 27,164 | 24,079 | 27,201 | 26,510 | 32,654 |
| Provision for income taxes (Notes b and 6) | 7,020 | 6,139 | 4,871 | 8,037 | 9,903 |
| | 20,144 | 17,940 | 22,330 | 18,473 | 22,751 |
| Equity in net income of unconsolidated subsidiaries | — | 227 | 4,709 | 12,061 | 8,342 |
| Net income | 20,144 | 18,187 | 27,039 | 30,534 | 31,093 |
| Retained income at beginning of period | 104,560 | 124,704 | 142,871 | 169,910 | 200,444 |
| Retained income at end of period | \$124,704 | \$142,871 | \$169,910 | \$200,444 | \$231,537 |
| Earnings per share (in whole dollars) (Note c) | \$.983 | \$.886 | \$ 1.319 | \$ 1.489 | \$ 1.517 |
| Ratio of earnings to fixed charges (Note d) | 1.69 | 1.51 | 1.53 | 1.53 | 1.67 |

NOTES TO STATEMENTS OF INCOME AND RETAINED INCOME

- (a) For information regarding car contracts and related car rental revenue, see "Business—Pooling Agreements and Car Hire Contracts" herein.
- (b) The provision for income taxes is comprised of the following components (in thousands of dollars):

| | Years Ended December 31, | | | | |
|------------------------|--------------------------|----------------|----------------|----------------|----------------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| Federal—Deferred | \$8,341 | \$5,537 | \$4,191 | \$7,427 | \$8,574 |
| —Current | — | — | — | — | 611 |
| State—Deferred | 679 | 602 | 680 | 562 | 553 |
| —Current | — | — | — | 48 | 165 |
| | <u>\$7,020</u> | <u>\$6,139</u> | <u>\$4,871</u> | <u>\$8,037</u> | <u>\$9,903</u> |

In computing the provision for income taxes, recognition has been given to investment tax credits amounting to (in thousands of dollars): year ended December 31, 1973—\$6,365, 1974—\$5,735, 1975—\$8,548, 1976—\$5,000, 1977—\$6,140. As of December 31, 1977, the Company has utilized all available investment tax credits for financial reporting purposes. The following table reconciles the statutory tax rate to the effective tax rate:

| | Years Ended December 31, | | | | |
|---|--------------------------|--------------|--------------|--------------|--------------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| Federal statutory rate | 48.0% | 48.0% | 48.0% | 48.0% | 48.0% |
| State income taxes net of Federal tax benefit | 1.8 | 1.9 | 1.3 | 1.2 | 1.1 |
| Investment tax credit* | (24.0) | (24.4) | (31.4) | (18.9) | (18.8) |
| Effective tax rate | <u>25.8%</u> | <u>25.5%</u> | <u>17.9%</u> | <u>30.3%</u> | <u>30.3%</u> |

* Includes investment tax credit generated by subsidiaries.

- (c) The number of shares of capital stock outstanding for all periods presented was 20,500.
- (d) For purposes of computing the ratios, earnings represent the total of (1) income before provision for income taxes, and (2) fixed charges (amounts included as other deductions and the imputed interest portion of equipment rental). The pro forma ratio of earnings to fixed charges for the year ended December 31, 1977 is 1.55. The pro forma ratio is after giving effect to interest on the Equipment Trust Certificates offered hereby and assumed interest on additional financing projected to occur during 1978, and the elimination of interest on certain securities retired or to be retired during the years 1977 and 1978 which are not expected to be refinanced. The pro forma ratio does not give effect to the revenue and expenses, other than interest expense, attributable to equipment acquired or to be acquired subsequent to December 31, 1977. Annual interest requirements on the Equipment Trust Certificates offered hereby will be initially \$1,783,000.

TRAILER TRAIN COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED INCOME

The following consolidated statements of income and retained income of Trailer Train Company and Subsidiaries have been examined by Peat, Marwick, Mitchell & Co., independent certified public accountants, whose report thereon appears elsewhere in this Prospectus. These statements should be read in conjunction with the financial statements and related notes included elsewhere herein. The numbered notes refer to Trailer Train Company and Subsidiaries Notes to Financial Statements included elsewhere herein.

| | Years Ended December 31, | | | | |
|--|--------------------------|-----------|-----------|-----------|-----------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| | (Thousands of Dollars) | | | | |
| Car rental revenue (Note a) | \$166,983 | \$193,226 | \$225,333 | \$290,912 | \$318,811 |
| Operating expenses: | | | | | |
| Car maintenance | 45,847 | 60,119 | 66,266 | 103,437 | 123,731 |
| Depreciation (Note 3) | 43,211 | 47,175 | 47,628 | 48,530 | 50,348 |
| Equipment rental (Note 8) | 4,370 | 11,473 | 24,491 | 43,511 | 47,033 |
| Personal property and other taxes | 6,297 | 6,916 | 6,630 | 7,612 | 8,885 |
| General and administrative expenses | 5,148 | 6,260 | 8,366 | 8,542 | 11,121 |
| Total operating expenses | 104,873 | 131,943 | 153,411 | 211,632 | 241,118 |
| Operating income | 62,110 | 61,283 | 71,922 | 79,280 | 77,693 |
| Other deductions: | | | | | |
| Interest | 35,665 | 36,960 | 35,905 | 34,425 | 32,602 |
| Amortization of debt expense | 376 | 375 | 382 | 396 | 419 |
| Interim financing charges | 805 | 1,965 | 633 | 14 | 529 |
| Total other deductions | 36,846 | 39,320 | 36,920 | 34,835 | 33,550 |
| Other income, principally interest | 1,900 | 2,559 | 1,345 | 2,593 | 4,274 |
| Net other deductions and income | 34,946 | 36,761 | 35,575 | 32,242 | 29,276 |
| Income before provision for income taxes | 27,164 | 24,522 | 36,347 | 47,038 | 48,417 |
| Provision for income taxes (Notes b and 6) | 7,020 | 6,355 | 9,308 | 16,504 | 17,324 |
| Net income | 20,144 | 18,167 | 27,039 | 30,534 | 31,093 |
| Retained income at beginning of period | 104,560 | 124,704 | 142,671 | 166,910 | 200,444 |
| Retained income at end of period | \$124,704 | \$142,671 | \$169,910 | \$200,444 | \$231,537 |
| Earnings per share (in whole dollars) (Note c) | \$.983 | \$.886 | \$ 1.319 | \$ 1.489 | \$ 1.517 |
| Ratio of earnings to fixed charges (Note d) | 1.69 | 1.52 | 1.65 | 1.74 | 1.77 |

NOTES TO CONSOLIDATED STATEMENTS OF INCOME AND RETAINED INCOME

- (a) For information regarding car contracts and related car rental revenue, see "Business—Pooling Agreements and Car Hire Contracts" herein.
- (b) The provision for income taxes is comprised of the following components (in thousands of dollars):

| | Years Ended December 31, | | | | |
|------------------|--------------------------|----------------|----------------|-----------------|-----------------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| Federal—Deferred | \$6,341 | \$5,735 | \$8,522 | \$12,789 | \$ 8,666 |
| —Current | — | — | — | 2,927 | 7,639 |
| State—Deferred | 679 | 608 | 705 | 562 | 578 |
| —Current | — | 12 | 81 | 226 | 441 |
| | <u>\$7,020</u> | <u>\$6,355</u> | <u>\$9,308</u> | <u>\$16,504</u> | <u>\$17,324</u> |

In computing the provision for income taxes, recognition has been given to investment tax credits amounting to (in thousands of dollars): year ended December 31, 1973—\$6,365, 1974—\$5,735, 1975—\$8,548, 1976—\$8,464, 1977—\$6,418. As of December 31, 1977, the Company has utilized all available investment tax credits for financial reporting purposes. The following table reconciles the statutory tax rate to the effective tax rate:

| | Years Ended December 31, | | | | |
|---|--------------------------|--------------|--------------|--------------|--------------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| Federal statutory tax rate | 48.0% | 48.0% | 48.0% | 48.0% | 48.0% |
| State income taxes net of Federal tax benefit | 1.8 | 1.3 | 1.1 | .8 | 1.0 |
| Investment tax credit | (24.0) | (23.4) | (23.5) | (13.7) | (13.2) |
| Effective tax rate | <u>25.8%</u> | <u>25.9%</u> | <u>25.6%</u> | <u>35.1%</u> | <u>35.8%</u> |

- (c) The number of shares of capital stock outstanding for all periods presented was 20,500.
- (d) For purposes of computing the ratios, earnings represent the total of (1) income before provision for income taxes and (2) fixed charges (amounts included as other deductions and the imputed interest portion of equipment rental). The pro forma ratio of earnings to fixed charges for the year ended December 31, 1977 is 1.50. The pro forma ratio is after giving effect to interest on the Equipment Trust Certificates offered hereby and assumed interest on additional financing projected to occur during 1978, and the elimination of interest on certain securities retired or to be retired during the years 1977 and 1978 which are not expected to be refinanced. The pro forma ratio does not give effect to the revenue and expenses, other than interest expense, attributable to equipment acquired or to be acquired subsequent to December 31, 1977. Annual interest requirements on the Equipment Trust Certificates offered hereby will be initially \$1,783,000.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
STATEMENTS OF INCOME AND RETAINED INCOME**

General

Consolidated income before provision for income taxes for 1977 was \$48.4 million, \$1.4 million higher than the \$47.0 million reported for 1976, and \$12.1 million higher than the \$36.3 million reported for 1975. The table below sets forth the contributions to consolidated revenue and income before provision for income taxes by Trailer Train, Railbox, Hamburg and Calpro for the periods indicated. Prior to 1974 all revenue and income were generated by Trailer Train.

| | Years Ended December 31, | | | |
|--|--------------------------|------------------|------------------|------------------|
| | 1974 | 1975 | 1976 | 1977 |
| | (Thousands of Dollars) | | | |
| REVENUE | | | | |
| Trailer Train | \$192,243 | \$208,999 | \$244,302 | \$275,970 |
| Railbox(a) | 199 | 15,850 | 45,990 | 42,037 |
| Hamburg(b) | 4,394 | 8,876 | 10,324 | 18,182 |
| | <u>196,836</u> | <u>233,725</u> | <u>300,616</u> | <u>336,189</u> |
| Eliminate inter-company charges for maintenance and capital improvements | 3,610 | 8,392 | 9,704 | 17,378 |
| Consolidated | <u>\$193,226</u> | <u>\$225,333</u> | <u>\$290,912</u> | <u>\$318,811</u> |
| INCOME BEFORE PROVISION FOR INCOME TAXES | | | | |
| Trailer Train | \$ 24,079 | \$ 27,201 | \$ 26,510 | \$ 32,654 |
| Railbox(a) | 254 | 8,198 | 19,471 | 13,077 |
| Hamburg(b) | 189 | 948 | 1,057 | 2,859 |
| Calpro | — | — | — | (1) |
| | <u>24,522</u> | <u>36,347</u> | <u>47,038</u> | <u>48,589</u> |
| Eliminate inter-company profit in capital improvements | — | — | — | 172 |
| Consolidated | <u>\$ 24,522</u> | <u>\$ 36,347</u> | <u>\$ 47,038</u> | <u>\$ 48,417</u> |

(a) Railbox's initial car hire rates were reduced 15% effective April 1, 1976 and 10% effective January 1, 1977. These reductions resulted from the following circumstances: (1) the initial rate structure was calculated to permit Railbox to accumulate retained income and establish a financial position within a relatively short period of time which would enable it to finance additional equipment on its own credit without guarantee by stockholders of Trailer Train, (2) average days in revenue service were higher than expected, and (3) maintenance expenses were minimal due to the newness of the fleet. See "Business—Equipment", "Business—Pooling Agreements and Car Hire Contracts" and "Business—Maintenance".

(b) Hamburg has been engaged principally in performing maintenance service and capital improvements on the Company's freight cars.

In addition to the following discussion, see "Business" for additional information regarding fleet size, car utilization and maintenance expense.

1977 Versus 1976

Consolidated car rental revenue increased by \$27.9 million (9.6%) from 1976 to 1977. Revenue for Trailer Train increased by \$31.7 million. Increases in Trailer Train car hire rates of 7% on April 1, 1976 and 7% on April 1, 1977 contributed \$18.2 million to the increase. A higher average percentage of flatcars in revenue service added \$3.7 million, higher average miles per day on intermodal cars added \$3.3 million and the increase in the average fleet size added \$6.5 million. Railbox revenue was lower in 1977 as the result of a 15% reduction in car hire charges effective April 1, 1976, and a 10% reduction effective on January 1, 1977. Those rate reductions, which reduced revenue by \$6.7 million, were partially offset by a \$2.7 million revenue increase due to increased average fleet size.

Consolidated car maintenance expense increased by \$20.3 million (19.6%) as a result of an increase in the number of cars repaired and a combination of higher material and labor costs resulting from inflation and an increase in work content performed. Approximately \$19.8 million of the increase is attributable to Trailer Train, and the remaining \$0.5 million to Railbox.

Equipment rental increased by a total of \$3.5 million (8.1%) resulting from leveraged lease financing of freight cars delivered in 1976 and 1977; \$2.3 million of the increase applies to Trailer Train and \$1.2 million to Railbox.

Depreciation increased by a total of \$1.8 million (3.7%); \$1.6 million for Trailer Train and \$0.2 million for Railbox, resulting from the purchase of new cars in 1976 and 1977. Interest expense declined \$1.8 million (5.3%) primarily because of a \$4.1 million reduction due to retirement of debt, which was partially offset by a \$2.3 million increase (\$1.9 million for Trailer Train, \$0.4 million for Railbox) resulting from the financing of new equipment.

General and administrative expenses, which are allocated between Trailer Train and Railbox according to the average sizes of their respective fleets, increased by \$2.6 million (30.2%). A total of \$1.0 million of the increase was due to increases in personnel and to increases in salary and office expenses, while the remaining \$1.6 million resulted from a change in the provision for doubtful receivables.

Personal property and other taxes increased by \$1.3 million (16.7%), primarily the result of the increased number of cars in the fleets. Interim financing charges increased by approximately \$0.5 million, resulting from the timing of new long-term financing in 1977. Other income increased by \$1.7 million from interest earned on higher temporary cash balances—\$1.0 million for Trailer Train and \$0.7 million for Railbox.

Provision for income taxes increased by approximately \$0.8 million. See Note (b) of notes to the respective statements of income and retained income.

1976 Versus 1975

Consolidated car rental revenue increased by \$65.6 million (29.1%) from 1975 to 1976. Revenue for Trailer Train increased by \$35.3 million. Increases in Trailer Train rental rates of 7% on August 1, 1975 and 7% on April 1, 1976 contributed \$20.8 million to the increase. A higher average percentage of flatcars in revenue service added \$10.6 million, while an increase in the average fleet size added \$3.3 million.

Railbox revenue increased by \$30.1 million. The increased number of boxcars in the Railbox fleet increased revenue by \$34.2 million, and a 15% rate reduction on boxcars effective April 1, 1976 reduced revenue by \$4.4 million.

Car maintenance expense, substantially all of which was attributable to Trailer Train, increased by approximately \$37.2 million (56%) as a result of an increase in the number of cars repaired and a combination of higher material and labor costs resulting from inflation and an increase in work content performed.

Equipment rental expense increased by \$19.0 million (77.6%). Of the increase, approximately \$16.8 million resulted from additional leveraged lease payments on the Railbox fleet. Ninety-four percent of Railbox cars were lease financed, therefore equipment rental expense increased proportionately with the growth of the fleet. The remaining \$2.2 million of increased equipment rental expense was the result of additional leveraged lease financing of new Trailer Train flatcars in 1975 and 1976.

Personal property and other taxes increased by approximately \$1.0 million (14.8%) due to the growth of the Railbox fleet. Interest expense decreased by approximately \$1.5 million reflecting a net reduction in long-term debt outstanding. Interim financing charges decreased by \$0.6 million, due to the reduced time period between new car deliveries and settlement with the car manufacturers.

General and administrative expenses increased by approximately \$0.1 million. Salary and office expenses increased by approximately \$0.6 million, while the collection of receivables previously deemed uncollectible reduced general and administrative expenses by approximately \$0.5 million.

Provision for income taxes increased by a total of \$7.2 million. See Note (b) of notes to the respective statements of income and retained income.

Interim Results

The following results of operations of Trailer Train Company (Parent Company Only) and Trailer Train Company and Subsidiaries for the three months ended March 31, 1977 and 1978 are unaudited but, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of such results (in thousands of dollars):

| | Parent Company Only | | Consolidated | |
|--|---------------------|----------|--------------------|----------|
| | Three Months Ended | | Three Months Ended | |
| | March 31, | | March 31, | |
| | 1977 | 1978 | 1977 | 1978 |
| Car rental revenue | \$63,595 | \$76,406 | \$74,205 | \$87,287 |
| Income before provisions for income taxes | \$ 8,348 | \$13,170 | \$12,249 | \$16,701 |
| Net income | \$ 6,369 | \$ 9,789 | \$ 8,369 | \$12,439 |

Consolidated car rental revenue increased by \$13.1 million as a result of increases in car hire charges in 1977 and 1978, and as a result of an increase in the average fleet size. Total consolidated ex-

penses increased by \$3.7 million, \$6.1 million of which was the result of increases in maintenance expenses.

BUSINESS

History and Operation

The concept of a nationwide fleet of flatcars originated when railroads sought to combine the cost advantages of long haul rail transportation with the origin and terminal flexibility of trucking. The plan required a large number of cars, readily interchangeable among railroads and capable of transporting highway trailers in high mileage service under widely varying operating conditions. Efficient implementation of the plan required standardized design, heavy duty construction and volume purchasing. Trailer Train was organized to acquire, finance and maintain a fleet of such cars.

At its inception, Trailer Train had two railroad stockholders which were joined over a period of years by 38 railroads and one freight forwarder. Railroad mergers and reorganizations subsequently reduced the stockholders to the present 32 owners. No railroad or group of railroads under common control owns or controls more than 7.3% of the outstanding capital stock of Trailer Train.

The success of Trailer Train in providing flatcars for hauling highway trailers led to the expansion of its fleet to include cars designed for hauling automobiles and other goods and products. The recurring problem of availability of general service boxcars led to the formation of Railbox and the acquisition of its fleet of such cars (see "Equipment").

The Trailer Train intermodal cars and the Railbox cars are considered to be "free running" pool cars in that they are not required to be returned, whether loaded or empty, in the direction of the owner. Accordingly, they are freely available for use where needed and, therefore, have an operational advantage over most other cars in service.

The Company's cars are provided to railroads pursuant to car contracts and pooling agreements, approved by the Interstate Commerce Commission ("ICC"). See "Pooling Agreements and Car Hire Contracts" and "Regulation". Participation in the Trailer Train flatcar pool, unlike the Railbox pool, is limited to Trailer Train stockholders. Currently there are 28 participants in the Trailer Train pool and 245 participants in the Railbox pool. Participants in such pools are hereinafter referred to as "Pool Participants".

Trailer Train and Railbox cars may be interchanged onto the lines of, and thereby be used by, railroads which are not Pool Participants. As a result, the cars in the Trailer Train and Railbox fleets accrue car hire charges on virtually every railroad in the United States. However, the right to request direction of additional cars to a specific railroad to meet traffic demands is limited to railroads which are Pool Participants.

Decisions to expand the number of cars in the Trailer Train and Railbox fleets are made by their respective Boards of Directors, giving consideration to information received from Pool Participants as to equipment needs and availability (See "Equipment"). Flatcars used in intermodal service and boxcars are not assigned to any particular railroad and additional cars for such service are added to the fleets as required. Flatcars for automobile service and other services are added to the fleet to meet specific car orders submitted by Trailer Train Pool Participants.

Neither Trailer Train nor Railbox builds cars. Cars are built for Trailer Train and Railbox by several major independent car builders.

There is no correlation between the percentage of ownership of Trailer Train capital stock and use of the Company's equipment. The following table sets forth the five largest users of Trailer Train and Railbox cars in 1977 in terms of approximate contributions to consolidated revenues (dollars in thousands):

| | Amount of Contribution | Percent of Consolidated Revenues |
|---|---------------------------|--|
| Consolidated Rail Corporation (ConRail) | \$80,739 | 19.2% |
| Family Lines System(1) | 35,299 | 11.0 |
| The Atchison, Topeka and Santa Fe Railway Company | 22,579 | 7.1 |
| Norfolk & Western Railway Company | 21,943 | 6.9 |
| Southern Pacific Transportation Company(2) | 21,307 | 6.7 |

(1) Seaboard Coast Line Railroad Company and Louisville and Nashville Railroad Company.

(2) Includes St. Louis Southwestern Railway Company.

At March 31, 1978, Trailer Train had 245 employees and Hamburg had 283 employees of whom approximately 230 Hamburg employees were covered by a collective bargaining agreement. Railbox has no separate employees. The businesses of Trailer Train and Railbox are operated independently of each other with Railbox being operated under a service contract with Trailer Train. Consistent with this policy, the financial operations are separate, with car acquisitions financed independently. Neither company guarantees the obligations of the other nor assumes any liabilities of the other.

Equipment

During the period from January 1, 1973 through March 31, 1978, the flatcar fleet has been increased by approximately 30% from 60,941 to 79,280 cars, of which 66,180 were owned and 13,120 were leased. Of the 79,280 cars in the fleet at March 31, 1978, 40,264 (51%) were intermodal cars, 25,704 (32%) were autorack cars and 13,312 (17%) were special use cars. This relative composition has remained substantially the same over the period. On an industry-wide basis, intermodal service accounted for approximately 6% of all rail freight carloadings in 1977, and autorack service for approximately 2%. The approximate cost of new intermodal cars ranges from \$39,000 to \$43,000, new autorack cars from \$33,000 to \$36,000 and new special use cars from \$35,000 to \$45,000.

The financing and acquisition of the initial Railbox fleet of 10,000 boxcars was completed in June, 1976. A total of \$250 million of financing for 9,440 cars was accomplished through leveraged leases. An additional 560 cars were purchased at a cost of \$14 million pursuant to conditional sale financing. The acquisition of this initial fleet was facilitated by guarantees of the lease and debt obligations of Railbox by eleven of the railroad stockholders of Trailer Train. New boxcars of the type in the Railbox fleet cost approximately \$29,000 to \$32,000. As of March 31, 1978 the fleet consisted of 10,936 boxcars, of which 9,380 were leased and 1,556 owned.

The following tables set forth information with respect to the Trailer Train and Railbox fleets for the last five years:

Trailer Train

| Trailer Train | | Average Percent of Cars in Revenue Service | Based on Cars in Revenue Service | | | |
|---------------|--------------------------|--|-------------------------------------|--------------|-------|--------------------------------------|
| Year | Average Fleet Size | | Average Miles Per Day | | | Average Revenue Per Car Day |
| | | | Intermodal | Auto Rack | Other | |
| 1973 | 63,480 | 97.4% | 178.0 | 130.0 | 72.5 | \$ 7.45 |
| 1974 | 71,120 | 94.7 | 165.1 | 112.8 | 70.0 | 7.80 |
| 1975 | 74,654 | 88.2 | 161.4 | 99.0 | 68.4 | 8.70 |
| 1976 | 75,683 | 91.7 | 166.6 | 117.1 | 67.6 | 9.57 |
| 1977 | 77,539 | 93.6 | 171.5 | 122.7 | 67.9 | 10.33 |

Railbox

| Year | Average Fleet Size | Average Percent of Cars in Revenue Service | Based on Cars in Revenue Service | |
|------|--------------------------|--|-------------------------------------|--------------------------------------|
| | | | Average Miles Per Day | Average Revenue Per Car Day |
| 1973 | — | — | — | — |
| 1974 | 166 | 89.8% | 68.3 | \$15.06 |
| 1975 | 3,075 | 95.7 | 62.9 | 14.84 |
| 1976 | 9,418 | 99.0 | 59.8 | 13.35 |
| 1977 | 9,952 | 99.3 | 57.0 | 11.54 |

In 1977 Trailer Train began a program for the return of flatcars in multi-level autorack service which have racks that have become worn and obsolete. In order to take advantage of the remaining useful lives of these cars, the racks are removed and the flatcars are modified to accept new, wider and heavier fully enclosed multi-level autoracks. Capital expenditures for this program are estimated to average \$20 million per year for the next several years.

Pooling Agreements and Car Hire Contracts

The Company's Pooling Agreements establish the basis by which Pool Participants and Trailer Train and Railbox pool car service, experience, research, car design and other resources.

The contractual arrangements with the Pool Participants embody the Company's policy of setting car hire charges at levels sufficient to meet the ordinary and necessary expenses of Trailer Train and Railbox, to establish for Trailer Train and Railbox a financial position enabling them to finance necessary car acquisitions on reasonable terms, and to keep the respective pools in the proper condition for operation at the highest point of efficiency. Except under certain circumstances, 60 days' notice is required for rate changes.

Flatcars and boxcars are provided to Pool Participants pursuant to Car Contracts which set forth the rights and obligations of the parties with respect to the cars and their use. The Car Contracts provide that the cars may be used by Pool Participants on their own lines or may be interchanged with other railroads whether or not Pool Participants.

Pool Participants are obligated to pay the applicable car hire charges for Trailer Train and Railbox cars used on their lines and to pay any unpaid car hire charges due for car usage by nonparticipating railroads.

The Pool Participants are required to pay such car hire charges only to the extent that cars have not been turned back to the Company. Under the car contracts, Pool Participants must give notice before cars may be turned back. In the case of Railbox, 5 days' notice must be given. With respect to Trailer Train, the notice period on intermodal cars is 5 days, on autorack and other specially-equipped cars it is 6 months, and on all other cars it is 60 days. In addition, when a Trailer Train Pool Participant is furnished new autorack or other specially-equipped cars, it must assume responsibility for the initial three years' car hire charges.

The Boards of Directors have enacted the following rate changes during the last five years:

| <u>Trailer Train</u> | | |
|------------------------|--|---------------------|
| <u>Date Effective</u> | | <u>% Increase</u> |
| February 1, 1978 | | 9.00 |
| April 1, 1977 | | 7.00 |
| April 1, 1976 | | 7.00 |
| August 1, 1975 | | 7.00 |
| December 1, 1974 | | 8.00 |
| April 1, 1974 | | 5.00 |
| <u>Railbox</u> | | |
| <u>Date Effective</u> | | <u>% (Decrease)</u> |
| January 1, 1977 | | (10.00) |
| April 1, 1976 | | (15.00) |

The relative contributions of the Trailer Train and Railbox fleets to consolidated revenue and income before provision for income taxes for recent periods are set forth in "Management's Discussion and Analysis of Statements of Income and Retained Income—General".

The following table sets forth the percentage of Trailer Train revenue derived from each major type of flatcar for the past five years:

| | <u>Intermodal</u> | <u>Autorack</u> | <u>Special Use</u> |
|------------|-------------------|-----------------|--------------------|
| 1977 | 53.4% | 31.2% | 15.4% |
| 1976 | 52.5 | 31.3 | 16.2 |
| 1975 | 50.4 | 33.0 | 16.6 |
| 1974 | 53.5 | 31.5 | 15.0 |
| 1973 | 52.5 | 33.0 | 14.5 |

Information on the relative contribution to net income is not maintained by car type. However, car hire charges are calculated to provide approximately the same rate of return for each car type over its useful life.

The car hire charges payable to Trailer Train for use of its autorack cars and special use cars are computed on per diem rates without a mileage charge. Car hire charges for intermodal cars and box-

cars are computed on a combination of per diem rates plus mileage rates. Car hire charges are the same for all railroads whether or not they are Pool Participants.

To the extent consistent with the Company's rate policy, the Boards of Directors of Trailer Train and Railbox may, subject to ICC approval, declare adjustment refunds to Pool Participants in proportion to their contribution to aggregate car hire payments. No such refund has ever been declared by either Board.

Trailer Train and Railbox invoice each Pool Participant on the first of each month for its estimated use of cars during the second preceding month. The estimate of usage is based on a number of factors, including prior usage by such Pool Participant. Payment is due within 10 days of the invoice date, whether or not the Pool Participant has reported its actual usage of cars at such time. Any difference between the actual usage subsequently reported by the Pool Participant for a particular month and the estimated usage for which such participant was originally invoiced is reflected in a subsequent adjustment. Payments for car usage by non-participating railroad users, which accounted for approximately 4.2% of the Company's car rental revenues in 1977, are not subject to this procedure, but are instead made pursuant to a voluntary reporting procedure in accordance with railroad industry practice.

Maintenance

The car contracts provide that Trailer Train and Railbox will be responsible for maintenance of the equipment. Light running repairs are performed for the most part by railroads, with such railroads being paid by Trailer Train and Railbox pursuant to rules and procedures and at rates established by the railroad industry. If the railroads are not able to perform the light running repairs, the cars are directed by the Company to approved car repair facilities.

Major maintenance, comprising a thorough inspection of components, with repair or replacement of worn parts, as necessary, is performed by either Hamburg at its facilities in Hamburg, South Carolina, or by one of 28 independent authorized repair facilities. In January, 1977 a wholly-owned subsidiary, Calpro, was organized to construct and operate a maintenance facility in southern California. The cost of this facility is expected to be approximately \$12 million, substantially all of which is expected to be financed initially by short-term borrowings from Railbox. Calpro is expected to commence operations in late 1978. On March 23, 1978, the Trailer Train Board of Directors authorized the organization of another wholly-owned subsidiary to construct and operate a maintenance facility in the Eastern United States. The cost of this facility is estimated not to exceed \$15,000,000 and it should be in operation by 1980.

Management believes that the Company's fleets are well maintained and in good mechanical condition. The major maintenance program is preventive in nature and is designed to reduce overall maintenance cost by repairing, replacing, or, in some cases, upgrading worn components in advance of equipment breakdown due to component failure. The scheduling of major maintenance is reviewed regularly to insure that this objective is being met. Major maintenance has been performed substantially as scheduled.

The major maintenance program provides that equipment be removed from service for preventive maintenance after a predetermined number of miles, ranging from 120,000 to 500,000 miles, depending on car type, or for modifications to conform to current engineering standards. Intermodal and

autorack cars are scheduled for major maintenance at 500,000 mile intervals, while special use cars are scheduled at intervals between 120,000 and 400,000 miles with an average of approximately 238,000 miles. The Company's computer data base includes a detailed mileage history for each car from the date of its acquisition or its last major maintenance. Based upon Company experience, the mileage intervals for all flatcars were extended in 1975, and again for autorack cars in 1977, to conform more closely to wear experience. The extensions of mileage intervals permitted a rescheduling of plans for this program. These extensions resulted in a reduction in the number of cars which would have otherwise undergone major maintenance during the last three years.

In accordance with established industry practice, Trailer Train and Railbox record maintenance expenses as incurred. The table below sets forth information as to maintenance expenses incurred by Trailer Train during the periods indicated (dollars in thousands).

| Period | Repairs Performed by Railroads (1) | Repairs Performed by Other Repair Facilities | | | | Total Maintenance Expense (2) |
|--------|------------------------------------|--|----------|-----------|----------|-------------------------------|
| | | Major | | All Other | | |
| | | Cars | Amount | Cars | Amount | |
| 1973 | \$26,788 | 3,456 | \$ 8,457 | 15,178 | \$10,602 | \$ 45,847 |
| 1974 | 28,427 | 4,663 | 13,705 | 14,438 | 17,235 | 59,367 |
| 1975 | 40,771 | 4,056 | 14,952 | 10,249 | 11,536 | 67,259 |
| 1976 | 50,066 | 5,811 | 25,333 | 17,280 | 29,072 | 104,471 |
| 1977 | 59,021 | 7,985 | 37,656 | 17,480 | 29,459 | 126,136 |

- (1) Maintenance records do not provide the actual numbers of cars on which railroads perform repairs.
- (2) Hamburg has been engaged principally in performing maintenance service and capital improvements on the Company's freight cars. Its revenues were (in thousands of dollars) \$4,394, \$8,876, \$10,324 and \$18,182, respectively, for the years ended December 31, 1974, 1975, 1976 and 1977.

An increasing number of cars will be scheduled for major maintenance in the next few years, reflecting the combined factors of maturing of the fleet and large additions to the flatcar fleet during the 1960's and 1970's as indicated in the following table. The number of cars on which Trailer Train estimates major maintenance will be performed during the next 5 years is: 8,732 in 1978, 7,617 in 1979 and 8,500 in each of the years 1980, 1981 and 1982. However, changes in utilization and other circumstances may change substantially the actual number of cars on which major maintenance may actually be performed in any year.

The following table sets forth the number of cars added to the Trailer Train fleet during the periods indicated:

| Period | Number of Cars |
|------------------------------------|----------------|
| 1956-1960 | 4,666 |
| 1961-1965 | 23,352 |
| 1966-1970 | 30,232 |
| 1971-1975 | 19,086 |
| 1976-1978 (through March 31) | 4,287 |

Maintenance expenses for the Railbox fleet have not been significant inasmuch as the fleet is relatively new. Such expenses aggregated approximately \$72,000, \$339,000 and \$881,000, respectively, for the years ended December 31, 1975, 1976, and 1977. Railbox maintenance expenditures are expected to increase substantially in 1978 and future years.

In August, 1974 the Federal Railroad Administration of the Department of Transportation ("FRA") promulgated freight car safety standards applicable to all freight cars which would have required an initial inspection of a substantial portion of the Trailer Train fleet prior to January 1, 1977, and continuing periodic inspections thereafter. Trailer Train filed a petition with the FRA requesting a modification of the standards applicable to intermodal and autorack cars. On March 19, 1976, the FRA responded to the petition, extending until December 31, 1978 the time for the initial inspection of the cars subject to the standards and increasing the interval between periodic inspections. On December 6, 1977, Trailer Train filed a second petition with the FRA seeking to further increase the intervals between periodic inspections based on equipment wear experience. Trailer Train also expects to seek an extension of the December 31, 1978 initial compliance date. Management does not believe that sufficient capacity exists at available maintenance facilities to comply with the present initial and continuing periodic inspection standards. Unless the initial compliance date is extended and the intervals between periodic inspections are increased, a significant number of Trailer Train intermodal and autorack cars would be subject to removal from service until inspected. Trailer Train believes that a modification of these standards will be achieved which will not significantly affect the number of its intermodal and autorack cars in service. Nevertheless, Trailer Train anticipates that the standards finally adopted will cause an increase in inspection costs and out-of-service time for the Trailer Train fleet, the precise amount of which cannot be estimated at this time, but which could average over the next five years from \$10,000,000 to \$25,000,000 per year.

On March 30, 1978, the FRA conducted a Safety Inquiry hearing concerning the safety performance of wheels on Trailer Train cars. At this hearing Trailer Train presented data indicating that its experience regarding wheel deficiencies is not significantly different than the experience of the railroad industry in general, and recommended that the question of wheel deficiencies generally should be the subject of a study by the FRA. The Company is unable to predict what action, if any, may be taken by the FRA as a result of the inquiry.

Anticipated maintenance expenses have a significant impact in the determination of car rental rates. See "Pooling Agreements and Car Hire Contracts" for a discussion of the Company's rate setting policy and recent rate changes.

Competition

Trailer Train and Railbox are subject to competition from other car companies which furnish flatcars and boxcars to railroads and other users, and from railroad owned fleets of cars. The Trailer Train fleet comprises a majority of intermodal and autorack cars in service in the United States. The Railbox fleet is not a significant percentage of the total number of boxcars in service.

Trailer Train, Railbox and the railroad industry in general experience price and service competition from highway motor carriers and other modes of transportation in the transport of highway trailers, containers, automobiles and other goods and products.

Regulation

Neither Trailer Train nor Railbox are common carriers. They are not subject to the regulation or supervision of the ICC except to the extent that the ICC may have the power to prescribe the form of, and inspect, the accounts and records of persons who furnish rolling stock to railroads. The Interstate Commerce Act also provides that the ICC may establish reasonable regulations regarding the compensation to be paid by railroads for the use of cars not owned by them and may fix penalties for the non-observance of any such regulations.

The Trailer Train and Railbox Pooling Agreements were approved by the ICC pursuant to Section 5(1) of the Interstate Commerce Act on August 1, 1974. Approval was granted subject to certain conditions, including, among other things, that Trailer Train and Railbox file with the ICC annual reports, all changes in car contracts or pooling agreements and, for information only, all changes in car hire rates, and that the cars controlled by the Company be subject to emergency car service orders under the Act. In addition, Railbox may not pay dividends, without ICC approval, until October 1, 1979 and prior ICC approval is required for any adjustment refund by the Company to Pool Participants.

In November, 1976, the ICC instituted a proceeding (Ex Parte No. 334—Basic Per Diem) for the purpose of establishing a new formula for the determination of compensation to be paid by railroads for the use of rolling stock, whether or not owned by a carrier. The ICC was required to revise its rules, regulations and practices with respect to car service in accordance with the Railroad Revitalization and Regulatory Reform Act of 1976 (the "1976 Act") by August, 1977. It was the ICC's position that the Interstate Commerce Act required that compensation for the use of freight cars be determined by it for each type of freight car and that car hire charges be established for shipper and other privately owned as well as railroad owned freight cars. Trailer Train and Railbox filed a statement in the proceeding setting forth the position that the car hire charges of Trailer Train and Railbox to their respective Pool Participants be exempt from any new formula adopted by the ICC for determining car hire charges. In its Report and Order dated August 1, 1977, the ICC affirmed its position that it has jurisdiction over the car hire charges to be paid by railroads for the use of shipper and private car line company cars, but also stated that Trailer Train and Railbox would be exceptions to any car hire formula adopted.

By Advance Notice of Proposed Rulemaking published August 29, 1977, the Federal Highway Administration and the National Highway Traffic Safety Administration of the U.S. Department of Transportation requested comments and information on proposed revisions to the Federal Motor Carrier Safety Regulations and the Federal Motor Vehicle Safety Standards. These proposed revisions would "consider the means for providing improved rear end protection on heavy motor vehicles manufactured after a certain date to prevent the underriding of vehicles which impact the rear of these heavy vehicles". Trailer Train filed its comments on November 29, 1977 suggesting exemption from the proposed standards of certain vehicles designed or intended for use in intermodal service. Any rulemaking adopted substantially reducing the present standard of rear underride clearance could, absent modifications in loading practices or equipment, have a material adverse effect on the rail transportation of highway trailers and, accordingly, on the utilization of the Company's intermodal flatcars for that purpose.

Railroad Industry Developments

The 1976 Act together with the Regional Rail Reorganization Act of 1973, as amended (the "1973 Act") and the Final System Plan of the United States Railway Association, provided for a comprehensive restructuring of certain railroads in the Northeast and the establishment of a new corporation known as ConRail to assume, in part, the rail transportation operations of Erie Lackawanna Railway Company, Penn Central Transportation Company, Reading Company and others. The Boston and Maine Corporation, another Northeast rail carrier, continues to seek reorganization pursuant to Section 77 of the Federal Bankruptcy Act.

On April 1, 1976, ConRail assumed rail transportation operations of Penn Central Transportation Company, Erie Lackawanna Railway Company, Reading Company and other railroads pursuant to Federal law and the Final System Plan. The estates of certain of those railroads remain obligated to Trailer Train and Railbox for pre-April 1, 1976 charges as indicated below:

| | Estimated Amounts as of April 25, 1978 | | |
|---|---|--------------|----------------|
| | Trailer Train | Railbox | Total |
| | (Thousands of Dollars) | | |
| Penn Central Transportation Company | \$1,395 | \$ 80 | \$1,415 |
| Erie Lackawanna Railway Company | 1,226 | 247 | 1,473 |
| Others | 232 | 0 | 232 |
| Total | \$2,853 | \$267 | \$3,120 |

The 1973 Act, as amended, provides a loan fund which, together with other available assets of the estates of said railroads in reorganization, is to be utilized to pay pre-April 1, 1976 charges. The Company anticipates collection of the above amounts in 1978.

ConRail, which provided 19.2% of consolidated revenues in 1977 as the largest user of the Company's cars, has paid all charges for use of the Company's cars on a current basis since its organization. In February, 1978, ConRail released its Five-Year Business Plan, which, under the assumptions set forth therein, indicates that ConRail's rate of recovery will be substantially less than what was originally estimated in the Final System Plan and sets forth ConRail's need for substantial amounts of additional financing during the five-year period: approximately \$1 billion from the private sector for equipment financing, and approximately \$2 billion from the Federal Government (which is approximately \$1.3 billion above earlier projections and the amount authorized under existing Federal legislation).

While the 1973 Act, the 1976 Act and the Final System Plan were intended to continue essential rail operations in the Northeast as well as to address certain industry problems, including discriminatory state taxation of transportation properties and the time required in obtaining approval of rate changes, mergers and abandonments, and to provide loans to railroads under certain terms and conditions, it is not possible yet to predict the ultimate impact of such developments or of regulatory or other changes flowing therefrom on the industry or on the Company's business.

On December 19, 1977, a petition for reorganization under Section 77 of the Bankruptcy Act by the Chicago, Milwaukee, St. Paul and Pacific Railroad Company (the "Milwaukee Road"), a Pool Participant, was approved for filing.

As of March 31, 1978, the Milwaukee Road had been billed an aggregate of \$1,678,684 (Trailer Train—\$1,532,495, Railbox—\$146,189) representing car hire charges and miscellaneous charges for periods prior to December, 1977. All such charges remain unpaid. The Milwaukee Road is treating these amounts on the same basis as other railroad industry interline accounts, and it is expected that all amounts owing except the miscellaneous charges (Trailer Train—\$299,631, Railbox—\$55,192) will be collected prior to July 1, 1980. The Milwaukee Road has been paying charges based on periods after December 1, 1977 on a current basis.

Litigation

On December 29, 1977, the Trustees of Reading Company petitioned their Reorganization Court for an order providing for the Trustees and Trailer Train to negotiate a means by which the Trustees might sell or otherwise obtain benefits from their 500 shares of Trailer Train Company capital stock. The Trustees allege that, since Reading Company is no longer an operating railroad and since Trailer Train has never paid a dividend, Reading Company can neither profit from its participation in Trailer Train nor dispose of its Trailer Train stock except at a price substantially below book value. Trailer Train has moved for the court to dismiss the Trustee's petition for lack of jurisdiction. The court has not ruled on this motion. The litigation may eventually take the form of a more specific claim against Trailer Train, but in the absence of a claim for more specific relief, Trailer Train is not able to form an opinion as to the eventual outcome of the litigation. The Company has been informed that the Trustees of the Erie Lackawanna Railway Company, owner of 500 shares of Trailer Train Company capital stock, are considering a similar course of action.

DESCRIPTION OF CERTIFICATES

The Certificates are to be issued pursuant to the provisions of an Equipment Trust Agreement to be dated as of May 15, 1978 (the "Agreement"), between The Chase Manhattan Bank (National Association), as Trustee (the "Trustee"), and Trailer Train, creating Trailer Train Company Equipment Trust, Series 39 (the "Trust"). A copy of the proposed form of the Agreement is filed as an exhibit to the Registration Statement. The following statements are brief summaries of certain provisions of the Agreement and are subject to the detailed provisions of the Agreement, to which reference is hereby made for a complete statement of such provisions.

Issuance and Transfer of Certificates

The Certificates will be designated Trailer Train Company Equipment Trust Certificates, Series 39, will be limited to \$20,250,000 aggregate principal amount (all of which are being offered hereby) and will be issued by the Trustee against the deposit with the Trustee of a like amount in cash ("Deposited Cash"). Each of the Certificates will represent an interest equal to its principal amount in the Trust. There will be endorsed upon the Certificates, prior to their issuance, Trailer Train's unconditional guaranty of the prompt payment of the principal of and interest on the Certificates.

The Certificates will be issued in fully registered form only, in denominations of \$1,000 and any integral multiple of \$1,000. The several denominations of the Certificates are to be interchangeable, in equal aggregate principal amounts, for Certificates of like maturity without payment of a service charge, in the manner specified in the Agreement.

Payment of Principal and Interest

The Certificates originally issued will be dated May 15, 1978 and will mature serially in the principal amount of \$1,350,000 on May 15 in each of the years 1979 to 1993, inclusive. The Certificates will not be redeemable prior to their individual stated maturities. Interest will accrue on the Certificates at the several rates specified on the cover page hereof from May 15, 1978, payable semiannually on May 15 and November 15 in each year, and principal and interest will be payable at the principal corporate trust office of the Trustee in New York, New York; however, at the option of the Trustee, payment of interest may be made by checks mailed to the registered addresses of the persons in whose names the Certificates are registered. The Trustee is not required to register the transfer of Certificates for a period of 15 days preceding any date for the payment of interest.

Security for Certificates

The Agreement will provide for the assignment and transfer to the Trustee of approximately 600 railroad flatcars, or other railroad equipment (other than passenger or work equipment) of the types used in Trailer Train's business. The Agreement will require that the aggregate Cost (as defined in the Agreement) of all the equipment subjected to the Trust be not less than \$25,312,500 and that additional equipment be subjected to the Trust if required to make up such aggregate Cost. None of the equipment subjected to the Trust initially or as replacement equipment will have been in use prior to April 1, 1978.

When and as any of the equipment shall be delivered to and accepted by the Trustee, the Trustee will pay to the manufacturers thereof out of Deposited Cash an amount which will equal not more than 80% of the lesser of the aggregate Cost of such equipment or its fair value, and the balance of the Cost will be paid by the Trustee from advance rentals payable by Trailer Train to the Trustee pursuant to the provisions of the Agreement. Until so paid out, Deposited Cash and other funds held by the Trustee pending delivery to it of equipment may be invested, at the request and risk of Trailer Train, in direct or guaranteed obligations of the United States, in prime commercial paper and in certificates of deposit or time deposits in United States banks. If not in default under the Agreement, Trailer Train shall be entitled to receive any interest on such Deposited Cash and other funds.

The Agreement will require Trailer Train to cause the Agreement to be recorded with the ICC in accordance with Section 20c of the Interstate Commerce Act and in all other jurisdictions where required by law or reasonably requested by the Trustee for the purpose of proper protection of the title of the Trustee and the rights of the Certificate holders, except that Trailer Train will not be required so to record in any jurisdiction outside the United States if (1) in the opinion of Trailer Train such recording would be unduly burdensome, (2) after giving effect to such failure to record, Trailer Train has taken all actions required by law to protect the title of the Trustee to units of the equipment subject to the Trust having a fair value (as determined in accordance with the Agreement) of not less than 85% of the aggregate fair value of all such equipment and (3) any unit of such equipment at any time located in such jurisdiction shall have been marked with the markings specified in the Agreement.

The Agreement will provide for the lease to Trailer Train of all the equipment subject thereto for a period of 15 years, commencing May 15, 1978, at a rental sufficient to pay the principal of and interest on the Certificates, together with all expenses of the Trust and certain other charges. Such rental will be payable by Trailer Train when due whether or not all or any part of the equipment

has been subjected to the Trust. At the termination of the lease and after all payments due or to become due from Trailer Train under the Agreement shall have been fully made, such payments shall be applied as purchase money and as the full purchase price of the equipment then subject to the Trust and title to all such equipment shall vest in Trailer Train. The Agreement will also provide for the use of the equipment subject to the trust in Trailer Train's business, including the sublease thereof to others subject to the terms and conditions of the Agreement.

The Trailer Train Pool Participants have agreed that if and so long as an Event of Default may exist under the Agreement, claims which they have against Trailer Train for moneys advanced in the future to pay its equipment obligations guaranteed by such Pool Participants (which equipment obligations, at March 31, 1978, amounted to \$7,723,124) shall be subordinated to the prior payment in full of the Certificates and any other equipment obligations of Trailer Train not guaranteed by the Pool Participants. The holders of the Certificates will have no other right against the Pool Participants. No advances have been made by Pool Participants in respect of equipment obligations and none are contemplated at this time.

Maintenance, Release and Substitution of Equipment

Trailer Train will be required to maintain the equipment subject to the Trust in good order and proper repair unless and until it becomes worn out, unsuitable for use, stolen, lost or destroyed. The Agreement will provide that, whenever equipment having a total fair value of \$250,000 shall become worn out, unsuitable for use, stolen, lost or destroyed, Trailer Train shall deposit with the Trustee an amount in cash equal to the fair value (as defined in the Agreement) of such equipment.

The Agreement will provide for the release by the Trustee of any equipment subject to the Trust upon request of Trailer Train and upon the payment to the Trustee of cash and/or the conveyance to the Trustee of other equipment, the amount of cash deposited and the fair value (as defined in the Agreement) of the equipment conveyed to be not less than the fair value (as so defined) of the equipment to be released. Any cash so deposited (and any cash deposited as provided in the preceding paragraph) in respect of railroad cars will be paid over by the Trustee to Trailer Train against the conveyance to the Trustee of railroad cars not used prior to April 1, 1978 having a fair value (as so defined) not less than the amount of cash to be paid over.

The Trustee

The Chase Manhattan Bank (National Association) will be the Trustee. At the date hereof, the principal corporate trust office of the Trustee is at One New York Plaza, New York, New York 10015.

Events of Default and Provisions Relating Thereto

Events of Default will be defined in the Agreement as being: default for more than 30 days in the payment of any rental payable under the Agreement; any unauthorized transfer of Trailer Train's rights under the Agreement, continuing as provided therein; any unauthorized transfer, sublease or parting with the possession of any of the equipment subject to the Trust, continuing as provided therein; any failure, for 60 days after notice, in performance of any other covenant in the Agreement; default under certain other agreements under which Trailer Train is an obligor and the Trustee is, at the time, also acting as trustee; and the termination of the lease provided for in the Agreement by operation of law. The appointment of a receiver or trustee in bankruptcy or reorganization for Trailer Train or its property will be deemed to be an unauthorized assignment if, prior to the exercise of the

remedies of the Trustee under the Agreement, such receiver or trustee shall not be discharged or duly assume Trailer Train's obligations under the Agreement. The Agreement will provide that the Trustee shall, within 90 days after the happening of any uncured default (without regard to periods of grace, if any) known to it, give to Certificate holders notice of the occurrence thereof. However, unless such default be the failure to pay rentals in respect of the principal of or interest on any of the Certificates, the Trustee shall be protected in withholding such notice if and so long as the Trustee in good faith determines that the withholding of such notice is in the interests of the Certificate holders.

In the event of bankruptcy or reorganization of Trailer Train, the right of the Trustee to repossess or dispose of equipment covered by the Trust would be subject to the Federal bankruptcy laws generally applicable to industrial companies.

Upon the happening of an Event of Default, the Trustee or the holders of not less than 25% in principal amount of outstanding Certificates may declare the principal of the Certificates and all rentals (other than in respect of interest payments subsequently accruing) payable under the Agreement to be immediately due and payable. Subject to certain conditions, however, any such declaration may be rescinded by the holders of a majority in principal amount of outstanding Certificates upon payment by Trailer Train of all sums then due otherwise than by acceleration. Prior to such declaration, the holders of a majority of the aggregate unpaid principal amount of outstanding Certificates may waive any past Event of Default, except an Event of Default in the payment of rentals due in respect of the principal of or interest on the Certificates. The Agreement will require the annual filing by Trailer Train with the Trustee of a certificate as to compliance with the terms of the Agreement.

The right of any Certificate holder to institute action for any remedy under the Agreement (except the right to enforce payment of the principal of and interest on the Certificates when due if such enforcement will not impair the Trustee's title to the equipment subject to the Trust) is subject to certain conditions precedent, including a request by the holders of not less than a majority in principal amount of outstanding Certificates to the Trustee to take action, and an offer to the Trustee of reasonable indemnification against liabilities incurred by it in so doing.

Modification of Agreement

The Agreement will contain provisions permitting Trailer Train and the Trustee, with the consent of holders of not less than 66⅔% in aggregate principal amount of Certificates then outstanding, to modify the Agreement or the rights of the holders of the Certificates, except that no such modification shall (a) extend the fixed maturity of the principal of, or any installment of interest on, any Certificate, or change the dates upon which moneys are payable with respect to such principal at maturity or any installment of interest, or reduce the principal amount thereof or interest thereon, (b) impair the right to institute suit for the enforcement of such payment on or after the fixed maturity or date of payment, (c) modify any provisions of the guaranty of Trailer Train in respect of any Certificates, (d) create any security interest with respect to the Trust Equipment ranking prior to, or on a parity with, the security interest created by this Agreement or (e) reduce the aforesaid percentage of Certificates necessary to modify the Agreement, without the consent of the holders of all the Certificates then outstanding being affected thereby.

LEGAL OPINIONS

The validity of the Equipment Trust Certificates offered hereby will be passed upon for Trailer Train by Robert J. Williams, Vice President—General Counsel and Secretary of Trailer Train and by

Messrs. Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, and for the Underwriters by Messrs. Cravath, Swaine & Moore, One Chase Manhattan Plaza, New York, New York 10005. Messrs. Cravath, Swaine & Moore have, on occasion, acted as counsel for the Company in certain matters. Trailer Train will pay the fees and expenses of Messrs. Cravath, Swaine & Moore.

EXPERTS

The balance sheets as of December 31, 1977 and statements of income and retained income and changes in financial position for the five years then ended included herein have been included in reliance upon the report of Peat, Marwick, Mitchell & Co., independent certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

PURCHASERS

The Purchasers named below (the "Purchasers") have severally agreed to purchase from Trailer Train the following respective principal amounts of the Certificates:

| <u>Purchaser</u> | <u>Principal Amount</u> |
|--|-----------------------------|
| The First Boston Corporation | \$ 3,442,500 |
| Bache Halsey Stuart Shields Incorporated | 3,442,500 |
| Merrill Lynch White Weld Capital Markets Group Merrill Lynch, Pierce, Fenner & Smith Incorporated | 3,442,500 |
| Lehman Brothers Kuhn Loeb Incorporated | 3,442,500 |
| L. F. Rothschild, Unterberg, Towbin | 2,025,000 |
| Dain, Kalman & Quail, Incorporated | 810,000 |
| Prescott, Ball & Turben | 810,000 |
| Bacon, Whipple & Co. | 607,500 |
| J. J. B. Hilliard, W. L. Lyons, Inc. | 607,500 |
| R. W. Corby & Company Incorporated | 405,000 |
| First Albany Corporation | 405,000 |
| Manley, Bennett, McDonald & Co. | 405,000 |
| Burton J. Vincent, Chesley & Co. | 405,000 |
| Total | \$20,250,000 |

The Purchase Agreement provides that the obligations of the Purchasers are subject to certain conditions precedent, and that the Purchasers will be obligated to purchase all of the Certificates if any are purchased, provided that, under certain circumstances involving a default of Purchasers, less than all of the Certificates may be purchased.

Trailer Train has been advised by The First Boston Corporation, Bache Halsey Stuart Shields Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Lehman Brothers Kuhn Loeb Incorporated, as Representatives of the Purchasers, that the Purchasers propose to offer the Certificates to the public initially at the offering price set forth on the cover page of this Prospectus. Through the Representatives, the Purchasers propose to offer the Certificates to certain dealers at such price less the following concessions, and the Purchasers and such dealers may allow the following discounts:

| <u>Maturity Date of Certificate</u> | <u>Concession (Percent of Principal Amount)</u> | <u>Discount (Percent of Principal Amount)</u> |
|---|---|---|
| May 15, 1979 | 0.25% | 0.125% |
| May 15, 1980 | 0.25 | 0.125 |
| May 15, 1981 | 0.25 | 0.125 |
| May 15, 1982 | 0.25 | 0.125 |
| May 15, 1983 | 0.25 | 0.125 |
| May 15, 1984 | 0.45 | 0.250 |
| May 15, 1985 | 0.45 | 0.250 |
| May 15, 1986 | 0.45 | 0.250 |
| May 15, 1987 | 0.45 | 0.250 |
| May 15, 1988 | 0.45 | 0.250 |
| May 15, 1989 | 0.45 | 0.250 |
| May 15, 1990 | 0.45 | 0.250 |
| May 15, 1991 | 0.45 | 0.250 |
| May 15, 1992 | 0.45 | 0.250 |
| May 15, 1993 | 0.45 | 0.250 |

The public offering prices and concessions and discounts to dealers may be changed by the Representatives.

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ACCOUNTANTS' REPORT**The Board of Directors of
Trailer Train Company:**

We have examined the balance sheets of Trailer Train Company (Parent Company Only) and of Trailer Train Company and Subsidiaries as of December 31, 1977, the related statements of income and retained income and changes in financial position of Trailer Train Company (Parent Company Only) for each of the years in the five year period then ended, and of Trailer Train Company and Subsidiaries for each of the years in the five year period then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Trailer Train Company (Parent Company Only) at December 31, 1977, the results of its operations and the changes in its financial position for each of the years in the five year period then ended, and the financial position of Trailer Train Company and Subsidiaries at December 31, 1977, the results of their operations and the changes in their financial position for each of the years in the five year period then ended, all in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Chicago, Illinois
February 3, 1978

**TRAILER TRAIN COMPANY
(PARENT COMPANY ONLY)**

BALANCE SHEET

| | December 31, 1977 (Thousands of Dollars) |
|---|---|
| Assets | |
| Cash and short-term investments (Note 2) | \$ 33,902 |
| Receivables (Note 5): | |
| Per diem and mileage | 47,977 |
| Agency | 12,251 |
| Miscellaneous | 9,566 |
| | 69,794 |
| Less allowance for doubtful receivables | 1,508 |
| Net receivables | 68,286 |
| Maintenance supplies, at cost | 12,048 |
| Prepaid expenses | 193 |
| Total current assets | 114,429 |
| Special funds for destroyed cars (cash and short-term investments, at cost) | 1,446 |
| Fixed assets, at cost: | |
| Transportation equipment—railroad cars (Notes 3, 4 and 12) | 1,167,762 |
| Other equipment | 1,016 |
| | 1,168,778 |
| Less accumulated depreciation | 525,802 |
| Net fixed assets | 642,976 |
| Investment in subsidiaries | 29,840 |
| Deferred charges | 1,933 |
| | <u>\$ 790,624</u> |
| Liabilities and Stockholders' Equity | |
| Accounts payable | \$ 42,579 |
| Accrued interest and equipment rental | 17,722 |
| Accrued taxes, principally personal property taxes | 1,998 |
| Federal and state income taxes | 799 |
| Total current liabilities exclusive of long-term debt instalments due within one year | 63,098 |
| Long-term debt instalments due within one year (Note 4) | 58,902 |
| Total current liabilities | 122,000 |
| Long-term debt, less instalments due within one year (Note 4) | 348,132 |
| Deferred income taxes (Note 6) | 84,079 |
| Total liabilities | 554,211 |
| Stockholders' equity (Note 9): | |
| Capital stock \$1 par value: | |
| Authorized 22,500 shares; Issued 20,500 shares | 21 |
| Additional paid-in capital | 4,855 |
| Retained income | 231,537 |
| Total stockholders' equity | 236,413 |
| | <u>\$ 790,624</u> |
| The accompanying notes are an integral part of the financial statements. | |

**TRAILER TRAIN COMPANY
(PARENT COMPANY ONLY)**

STATEMENTS OF CHANGES IN FINANCIAL POSITION

| | Years Ended December 31, | | | | |
|---|--------------------------|-----------------|------------------|-----------------|------------------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| | (Thousands of Dollars) | | | | |
| Funds Were Provided By: | | | | | |
| Operations: | | | | | |
| Net income | \$ 20,144 | \$ 18,187 | \$ 27,039 | \$ 30,534 | \$ 31,093 |
| Charges (credits) not requiring (not providing) funds: | | | | | |
| Depreciation and amortization | 43,805 | 47,720 | 48,152 | 48,636 | 50,123 |
| Deferred income taxes | 7,020 | 6,139 | 4,871 | 7,989 | 9,127 |
| Equity in net income of unconsolidated subsidiaries | — | (227) | (4,709) | (12,061) | (8,342) |
| Total from operations | 70,969 | 71,799 | 75,353 | 75,098 | 82,001 |
| Equipment financing | 56,543 | 37,222 | 25,206 | 5,146 | 45,000 |
| Other items (net) | 1,182 | 2,857 | 2,773 | 2,143 | 7,512 |
| Total funds provided | <u>128,694</u> | <u>111,938</u> | <u>103,332</u> | <u>82,387</u> | <u>134,513</u> |
| Funds Were Applied To: | | | | | |
| Acquire transportation equipment | 73,925 | 50,180 | 34,491 | 18,903 | 61,824 |
| Retire debt | 55,150 | 58,325 | 58,821 | 61,116 | 56,099 |
| Investment in subsidiaries | — | 3,500 | — | — | 1,000 |
| Note receivable—intercompany | — | 100 | — | — | — |
| Total funds applied | <u>129,075</u> | <u>112,165</u> | <u>93,312</u> | <u>78,019</u> | <u>118,923</u> |
| Increase (decrease) in working capital* | <u>\$ (381)</u> | <u>\$ (227)</u> | <u>\$ 10,020</u> | <u>\$ 4,368</u> | <u>\$ 15,590</u> |
| Changes in Working Capital Components: | | | | | |
| Increase (decrease) in current assets: | | | | | |
| Cash and short-term investments | \$ 2,326 | \$ (9,600) | \$ 9,381 | \$ (3,630) | \$ 22,968 |
| Net receivables | 5,496 | 8,581 | 8,101 | 15,889 | (8,579) |
| Maintenance supplies | 446 | 2,345 | 2,235 | 2,046 | 3,003 |
| Prepaid expenses | (7) | — | (64) | 221 | (90) |
| | <u>8,261</u> | <u>1,326</u> | <u>19,653</u> | <u>14,506</u> | <u>17,302</u> |
| Increase (decrease) in current liabilities: | | | | | |
| Accounts payable | 7,639 | (2,692) | 7,002 | 6,780 | 4,382 |
| Accrued interest and equipment rental | 678 | 4,202 | 1,217 | (463) | 2,215 |
| Accrued taxes, principally personal property taxes | 325 | 43 | 1,414 | (942) | (891) |
| Federal and state income taxes | — | — | — | — | 769 |
| Accrued cost of transportation equipment not yet financed | — | — | — | 4,763 | (4,763) |
| | <u>8,642</u> | <u>1,553</u> | <u>9,633</u> | <u>10,138</u> | <u>1,712</u> |
| Increase (decrease) in working capital* | <u>\$ (381)</u> | <u>\$ (227)</u> | <u>\$ 10,020</u> | <u>\$ 4,368</u> | <u>\$ 15,590</u> |

* Exclusive of long-term debt due within one year.

The accompanying notes are an integral part of the financial statements.

TRAILER TRAIN COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

| | December 31, 1977 (Thousands of Dollars) |
|---|---|
| Assets | |
| Cash and short-term investments (Note 2) | \$ 68,531 |
| Receivables (Note 5): | |
| Per diem and mileage | 56,361 |
| Agency | 12,251 |
| Miscellaneous | 8,483 |
| | <u>77,095</u> |
| Less allowance for doubtful receivables | 1,874 |
| Net receivables | <u>75,421</u> |
| Maintenance supplies, at cost | 14,206 |
| Prepaid expenses | 211 |
| Total current assets | <u>158,369</u> |
| Special funds for destroyed cars (cash and short-term investments, at cost) | 1,547 |
| Fixed assets, at cost: | |
| Transportation equipment—railroad cars (Notes 3, 4 and 12) | 1,184,206 |
| Land, buildings and equipment | 5,497 |
| | <u>1,189,703</u> |
| Less accumulated depreciation | 528,990 |
| Net fixed assets | <u>660,713</u> |
| Deferred charges | 2,845 |
| | <u>\$ 825,474</u> |
| Liabilities and Stockholders' Equity | |
| Accounts payable | \$ 41,298 |
| Accrued interest and equipment rental | 26,541 |
| Accrued taxes, principally personal property taxes | 2,592 |
| Federal and state income taxes | 4,907 |
| Accrued cost of transportation equipment not yet financed | 1,788 |
| Total current liabilities exclusive of long-term debt instalments due within one year | 77,126 |
| Long-term debt instalments due within one year (Note 4) | 59,664 |
| Total current liabilities | <u>136,790</u> |
| Long-term debt, less instalments due within one year (Note 4) | 358,049 |
| Deferred income taxes (Note 6) | 94,222 |
| Total liabilities | <u>589,061</u> |
| Stockholders' equity (Note 9): | |
| Capital stock \$1 par value: | |
| Authorized 22,500 shares; Issued 20,500 shares | 21 |
| Additional paid-in capital | 4,855 |
| Retained income | 231,537 |
| Total stockholders' equity | <u>236,413</u> |
| | <u>\$ 825,474</u> |
| The accompanying notes are an integral part of the financial statements. | |

TRAILER TRAIN COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

| | Years Ended December 31, | | | | |
|---|--------------------------|------------|-----------|-----------|-----------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| | (Thousands of Dollars) | | | | |
| Funds Were Provided by: | | | | | |
| Operations: | | | | | |
| Net income | \$ 20,144 | \$ 18,187 | \$ 27,039 | \$ 30,534 | \$ 31,083 |
| Charges not requiring funds: | | | | | |
| Depreciation and amortization | 43,805 | 47,807 | 48,365 | 49,147 | 50,883 |
| Deferred income taxes | 7,020 | 6,343 | 9,227 | 13,351 | 9,244 |
| Total from operations | 70,969 | 72,317 | 84,631 | 93,032 | 91,220 |
| Equipment financing | 56,543 | 37,222 | 25,205 | 16,869 | 45,000 |
| Other items (net) | 1,182 | 2,797 | 2,643 | 1,932 | 7,542 |
| Total funds provided | 128,694 | 112,396 | 112,479 | 111,833 | 143,762 |
| Funds Were Applied to: | | | | | |
| Acquire transportation equipment | 73,925 | 50,180 | 34,600 | 31,259 | 63,926 |
| Acquire land, buildings and equipment | — | 469 | 703 | 503 | 2,304 |
| Purchase of subsidiary | — | 998 | — | — | — |
| Retire debt | 55,150 | 58,396 | 58,935 | 61,242 | 57,141 |
| Total funds applied | 129,075 | 110,033 | 94,238 | 93,004 | 123,371 |
| Increase (decrease) in working capital* | \$ (381) | \$ 2,363 | \$ 18,241 | \$ 18,829 | \$ 20,391 |
| Changes in Working Capital Components: | | | | | |
| Increase (decrease) in current assets: | | | | | |
| Cash and short-term investments | \$ 2,326 | \$ (7,515) | \$ 16,026 | \$ 13,382 | \$ 31,855 |
| Net receivables | 5,496 | 7,138 | 13,786 | 21,796 | (11,453) |
| Maintenance supplies | 446 | 4,370 | 1,765 | 1,903 | 3,749 |
| Prepaid expenses | (7) | 56 | (114) | 215 | (72) |
| Total | 8,261 | 4,049 | 31,463 | 37,296 | 24,079 |
| Increase (decrease) in current liabilities: | | | | | |
| Accounts payable | 7,639 | (2,658) | 7,284 | 6,582 | 3,597 |
| Accrued interest and equipment rental | 678 | 4,225 | 4,451 | 4,609 | 2,052 |
| Accrued taxes, principally personal property taxes | 325 | 81 | 1,481 | (502) | (845) |
| Federal and state income taxes | — | 38 | 6 | 3,015 | 1,859 |
| Accrued cost of transportation equipment not yet financed | — | — | — | 4,763 | (2,975) |
| Total | 8,642 | 1,686 | 13,222 | 18,467 | 3,688 |
| Increase (decrease) in working capital* | \$ (381) | \$ 2,363 | \$ 18,241 | \$ 18,829 | \$ 20,391 |

* Exclusive of long-term debt due within one year.

The accompanying notes are an integral part of the financial statements.

TRAILER TRAIN COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Significant accounting policies are summarized below to assist the reader in reviewing the financial statements and other data contained herein.

(a) Basis of Presentation

The financial statements of Trailer Train Company include the accounts of the parent company only. Investments in subsidiary companies, all of which are wholly-owned, are carried at cost plus equity in undistributed earnings since date of organization or acquisition. American Rail Box Car Company was organized on January 14, 1974, Hamburg Industries, Inc. was acquired on February 21, 1974, and Calpro Company was organized on January 31, 1977.

The consolidated financial statements of Trailer Train Company and subsidiaries include the accounts of Trailer Train Company and its wholly-owned subsidiaries, American Rail Box Car Company, Hamburg Industries, Inc. and Calpro Company, after elimination of transactions between the companies.

(b) Car Rental Revenue

Car rental revenues are recorded on an estimated basis until actual car usage is reported. This procedure generally requires two months, and estimates have proven to be accurate within acceptable limits.

(c) Depreciation

Depreciation on transportation equipment is recorded in the accounts on a straight-line basis at annual rates applied to the asset group cost beginning with the month following the date of acquisition. The rates are calculated to recover the cost less estimated salvage value over a period of twenty to twenty-five years. Depreciation on other equipment and buildings is recorded on a straight-line basis over their estimated useful lives ranging from eight to thirty-three years.

(d) Maintenance

Recurring maintenance charges are expensed as incurred in accordance with established industry practice. When major maintenance is performed near the end of the useful life of a car, such costs are capitalized and depreciated over the estimated extended useful life of the car.

(e) Federal Income Taxes

Trailer Train Company and its subsidiaries file consolidated Federal income tax returns. Provision has been made for deferred income taxes, which result from timing differences in the recognition of certain expenses, principally depreciation, for income tax and financial reporting purposes. In computing deferred income taxes, recognition has been given to invest-

TRAILER TRAIN COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—Continued

1. Summary of Significant Accounting Policies (Continued)

ment tax credits attributable to equipment purchases under the flow-through method of accounting for such credits.

(f) Retirement of Equipment

The cost of transportation equipment retired is credited to the fixed asset account and such cost, less salvage proceeds, is charged to the related accumulated depreciation account. Upon retirement of other equipment and buildings, such cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses on sale or other disposition are reflected in income.

2. Cash and Short-Term Investments

Cash and short-term investments consist of (in thousands of dollars):

| <u>Trailer Train Company</u> | <u>December 31, 1977</u> |
|---|------------------------------|
| Cash, net of outstanding checks | \$(10,814) |
| Marketable securities | 44,516 |
| Total | \$ 33,902 |
| <u>Trailer Train Company and Subsidiaries</u> | |
| Cash, net of outstanding checks | \$(10,900) |
| Marketable securities | 79,431 |
| Total | \$ 68,531 |

Marketable securities are stated at cost, which approximates market value.

3. Change in Accounting Estimate

On January 1, 1975, the estimated useful life of transportation equipment of Trailer Train Company purchased subsequent to December 31, 1970 was extended from twenty to twenty-two years. Accordingly, in 1975, depreciation expense was reduced by \$784,833 and net income was increased by \$583,767.

4. Long-Term Debt

Transportation equipment purchases have been financed through equipment purchase obligations. Security title to the related equipment is retained for the lenders by trustees under equipment trusts or assignees of equipment manufacturers under conditional sale agreements until the obligations are paid in full.

TRAILER TRAIN COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—Continued

4. Long-Term Debt (Continued)

Stockholders have purchased a total of \$20,000,000 principal amount of thirty year subordinated debentures, of which \$10,000,000 were issued in 1967 and \$10,000,000 in 1969. Payments on the subordinated notes would not be permitted if an event of default were to exist on any senior issue of long-term debt.

Long-term debt consisted of the following (in thousands of dollars):

| | December 31, 1977 | | |
|---|-------------------|---------------------|-----------|
| | Total | Due Within One Year | Long Term |
| Trailer Train Company: | | | |
| Conditional sale agreements, interest at 4.4% to 6.625% maturing serially to 1986 | \$ 78,174 | \$22,940 | \$ 55,234 |
| Equipment trusts, interest at 4.375% to 10.5% maturing 1978 to 1992 | 308,792 | 35,894 | 272,898 |
| Lease purchase agreement, interest at 4.0% maturing serially to 1978 | 68 | 68 | — |
| | 387,034 | 58,902 | 328,132 |
| Subordinated notes, interest at 6.5% maturing 1997 | 10,000 | — | 10,000 |
| Subordinated notes, interest at 7.5% maturing 1999 | 10,000 | — | 10,000 |
| Total | 407,034 | 58,902 | 348,132 |
| American Rail Box Car Company: | | | |
| Conditional sale agreement, interest at 8.5% maturing serially to 1991 | 10,679 | 762 | 9,917 |
| Total Consolidated | \$417,713 | \$59,664 | \$358,049 |

The amount of the above long-term debt maturing during each of the five calendar years subsequent to December 31, 1977 is as follows (in thousands of dollars):

| | Trailer Train Company | Consolidated |
|------------|-----------------------|--------------|
| 1978 | \$58,902 | \$59,664 |
| 1979 | 56,997 | 57,760 |
| 1980 | 51,059 | 51,822 |
| 1981 | 44,098 | 44,861 |
| 1982 | 38,581 | 39,344 |

TRAILER TRAIN COMPANY AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS—Continued

5. Receivables

On April 1, 1976, Consolidated Rail Corporation (ConRail) commenced operating the lines of the former Penn Central, Erie Lakawanna, Reading and other Northeast railroads in reorganization, all of which were users of the Company's equipment. While ConRail has continued to pay all charges due for the use of the Company's equipment for periods subsequent to April 1, 1976, there remain certain amounts due from the railroads' estates for the use of the Company's equipment during periods prior to April 1, 1976. Amounts due from the railroads' estates are included in receivables as follows (in thousands of dollars):

| | <u>December 31, 1977</u> |
|-------------------------------------|------------------------------|
| Trailer Train Company | \$4,029 |
| American Rail Box Car Company | 420 |
| | <u>\$4,449</u> |

The Company anticipates that payment of these obligations will be received during 1978 from funds which have been made available as a result of legislation enacted as part of the Regional Rail Reorganization Act of 1973, as amended, as well as from funds of the estates. For additional information on these receivables, see "Business—Railroad Industry Developments".

6. Provision for Income Taxes

For Federal income tax purposes, the Company has available at December 31, 1977, \$28,394,000 of investment tax credit carryforwards, which, if unused, would expire as follows (in thousands of dollars):

| <u>Year of Expiration</u> | <u>Amount</u> |
|---------------------------|-----------------|
| 1978 | \$ 2,724 |
| 1979 | 4,138 |
| 1980 | 5,113 |
| 1981 | 3,589 |
| 1982 | 3,263 |
| 1983 | 3,149 |
| 1984 | 6,418 |
| | <u>\$28,394</u> |

Tax returns have been examined by the Internal Revenue Service through 1968. For additional information on income taxes, see Note (b) of the notes to the respective statements of income and retained income.

TRAILER TRAIN COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—Continued

7. Pension Plans

Trailer Train Company has a non-contributory pension plan which is integrated with the Federal Railroad Retirement Act for all its employees. Pension expense including current cost and a portion of prior service cost (amortized over ten years) was approximately:

| <u>Years Ended December 31</u> | <u>Amount</u> |
|--------------------------------|---------------|
| 1973 | \$150,000 |
| 1974 | 207,000 |
| 1975 | 214,000 |
| 1976 | 318,000 |
| 1977 | 391,000 |

As of January 1, 1977, the market value of the assets of the pension fund exceeded the present value of vested benefits by approximately \$277,000.

Hamburg Industries, Inc. has two non-contributory pension plans integrated with the Federal Railroad Retirement Act, which together cover all of its employees. Pension expense for Hamburg Industries, including current cost and a portion of prior service cost (amortized over ten and thirty years), was approximately:

| <u>Years Ended December 31</u> | <u>Amount</u> |
|--------------------------------|---------------|
| 1974 | \$ 17,000 |
| 1975 | 33,000 |
| 1976 | 55,000 |
| 1977 | 66,000 |

As of January 1, 1977, the market value of the assets in both pension funds exceeded the present value of vested benefits by approximately \$85,000.

Certain changes in actuarial assumptions were made in the 1976 valuation of the Company's plans, including changes in interest rates, retirement ages and assumed salary scales. Such changes did not have a material effect on the results of operations of the Company.

8. Leases

As of December 31, 1977, Trailer Train Company and American Rail Box Car Company had entered into various operating lease agreements covering a total of 22,229 cars, consisting of 12,845 flatcars and 9,384 boxcars. The terms of the leases are for periods of 15 to 20 years. Certain leases provide for renewal options which give the Company the right to extend the leases at reduced

TRAILER TRAIN COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—Continued

8. Leases (Continued)

rentals. Minimum rental commitments, including fees payable to guarantors of certain lease obligations, for future years are as follows (in thousands of dollars):

| | Trailer Train Company | American Rail Box Car Company | Consolidated |
|-----------------|--------------------------|-------------------------------------|--------------|
| 1978 | \$ 24,425 | \$ 25,164 | \$ 49,589 |
| 1979 | 29,793 | 25,271 | 55,064 |
| 1980 | 34,297 | 25,192 | 59,489 |
| 1981 | 34,297 | 25,105 | 59,402 |
| 1982 | 34,297 | 25,007 | 59,304 |
| 1983-1987 | 167,230 | 123,308 | 290,538 |
| 1988-1992 | 114,765 | 75,261 | 190,026 |
| 1993-1996 | 31,121 | — | 31,121 |

Amounts do not include property taxes, insurance and maintenance payable by the Company. Trailer Train Company has entered into certain lease agreements whereby it unconditionally guarantees principal and interest payments on \$73,733,782 of equipment trust certificates maturing from 1985 to 1989.

In addition, the Company entered into lease agreements covering office equipment and office space requiring aggregate rental of \$4,056,891. Aggregate rental is \$3,550,814 for the period 1978 through 1982, and \$506,077 for the period 1983 through 1987.

9. Related Party Transactions

Trailer Train Company capital stock is owned by 29 operating railroads, the trustees of the estates of two former operating railroads and one freight forwarder. Substantially all consolidated revenues and Trailer Train Company revenues were generated from Trailer Train Company stockholders. Of total revenues generated, 19.2% were contributed by ConRail and 11.0% were contributed by the Family Lines System. Substantially all repairs performed by railroads included in car maintenance expense were performed by Trailer Train Company stockholders.

10. Construction Contract

On December 14, 1977 Calpro Company entered into a contract for the construction of a maintenance facility in California. The contract provides for design, grading, construction and installation of necessary track and facilities at a total cost of approximately \$6,300,000, subject to changes as agreed mutually between the contractor and Calpro. The facility is scheduled to be completed one year from the date construction commences.

TRAILER TRAIN COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS--Continued

11. Supplementary Statement of Income Information

TRAILER TRAIN COMPANY

| | Years Ended December 31, | | | | |
|--|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| | (Thousands of Dollars) | | | | |
| Taxes, other than income taxes: | | | | | |
| Personal property | \$5,490 | \$ 6,088 | \$ 5,649 | \$ 5,416 | \$ 6,037 |
| Gross receipts and other miscellaneous taxes | 807 | 827 | 848 | 1,153 | 1,315 |
| Payroll | 255 | 397 | 451 | 536 | 634 |
| | <u>\$6,552</u> | <u>\$ 7,312</u> | <u>\$ 6,948</u> | <u>\$ 7,105</u> | <u>\$ 7,986</u> |
| Rents: | | | | | |
| Transportation equipment | \$4,370 | \$11,434 | \$17,090 | \$19,267 | \$21,805 |
| Office space and office equipment | 579 | 738 | 901 | 1,012 | 1,048 |
| | <u>\$4,949</u> | <u>\$12,172</u> | <u>\$17,991</u> | <u>\$20,279</u> | <u>\$22,853</u> |

TRAILER TRAIN COMPANY AND SUBSIDIARIES

| | Years Ended December 31, | | | | |
|--|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | 1973 | 1974 | 1975 | 1976 | 1977 |
| | (Thousands of Dollars) | | | | |
| Taxes, other than income taxes: | | | | | |
| Personal property | \$5,490 | \$ 6,089 | \$ 5,692 | \$ 6,254 | \$ 7,366 |
| Gross receipts and other miscellaneous taxes | 807 | 827 | 938 | 1,358 | 1,519 |
| Payroll | 255 | 503 | 544 | 1,281 | 1,204 |
| | <u>\$6,552</u> | <u>\$ 7,419</u> | <u>\$ 7,174</u> | <u>\$ 8,873</u> | <u>\$10,089</u> |
| Rents: | | | | | |
| Transportation equipment | \$4,370 | \$11,473 | \$24,491 | \$43,511 | \$47,033 |
| Office space and office equipment | 579 | 791 | 960 | 1,063 | 1,113 |
| | <u>\$4,949</u> | <u>\$12,264</u> | <u>\$25,451</u> | <u>\$44,574</u> | <u>\$48,146</u> |

12. Replacement Cost Information (Unaudited)

The information contained herein compares the historical cost of the Company's transportation equipment as shown on the respective balance sheets as of December 31, 1977, with the estimated replacement cost of that equipment on December 31, 1977. The information also compares the accumulated depreciation which has been recorded for the Company's equipment with the

TRAILER TRAIN COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—Continued

12. Replacement Cost Information (Unaudited) (Continued)

estimated amount that would have been recorded on the basis of replacement cost. Additionally, depreciation expense for the year ended December 31, 1977, is compared to the estimated depreciation expense which would have been recorded for the year, assuming the use of replacement cost.

In computing the replacement cost of productive capacity and the impact of related expenses, the Company has included certain equipment which is operated pursuant to operating leases which are not recorded on the respective balance sheets as of December 31, 1977.

The replacement cost of the Company's transportation equipment is determined to be that value which the Company would invest to obtain a revenue stream over the depreciable life of the car, which would produce a profit or, at worst, break even after deducting out-of-service time, maintenance cost, ad valorem taxes, interest on borrowed funds and other administrative cost. This determination was made by class of car. When this determination produced a value in excess of the estimated market value for any given class, the estimated market value was used as replacement cost.

In estimating the replacement cost of the fleet, the Company excluded certain types of cars which are deemed to be obsolete and which, therefore, would not be replaced. Of the 89,111 cars in service on December 31, 1977, the Company considered that 85,600 would be replaced.

The determination of replacement cost is based upon many subjective judgments by management, since there are no generally accepted approaches to developing such costs. While management believes that the information contained herein is reasonable, it also believes that there are a number of methods which could have been used in the determination of replacement cost. Additionally, it must be recognized that replacement cost is not to be considered synonymous with current market value, inasmuch as market value represents the value that would be exchanged between a willing buyer and a willing seller, in consideration of circumstances which exist at the time of the transaction. Such considerations would include among others the remaining useful life and condition of the equipment, the net income streams that would be generated, and the rate of return required by the buyer on his investment.

The replacement of the Company's fleet would occur over an extended number of years in view of the long useful life of the equipment. The resulting changes in expense would occur gradually as replacements were made. The decision to replace each unit of equipment would be based upon an analysis of conditions projected at the time, such as the requirements of the markets served and the utilization of existing equipment.

The Company has historically achieved a positive relationship between revenues and expenses, and believes that a positive relationship would be preserved over a long-range replacement program.

TRAILER TRAIN COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS—Continued

12. Replacement Cost Information (Unaudited) (Continued)

TRAILER TRAIN COMPANY

| | Historical Cost Basis | Replacement Cost Basis |
|--|--------------------------|---------------------------|
| | (Thousands of Dollars) | |
| Cost of owned transportation equipment | \$1,187,762 | \$1,539,567 |
| Accumulated depreciation | 525,291 | 613,788 |
| Cost of owned transportation equipment less accumulated depreciation | \$ 642,471 | \$ 925,779 |
| Cost of leased transportation equipment | \$ 331,188 | \$ 353,592 |
| Depreciation | \$ 49,696 | \$ 62,984 |
| Lease rentals | 21,226 | 22,661 |
| Total expense | \$ 70,922 | \$ 85,645 |

TRAILER TRAIN COMPANY AND SUBSIDIARIES

| | Historical Cost Basis | Replacement Cost Basis |
|--|--------------------------|---------------------------|
| | (Thousands of Dollars) | |
| Cost of owned transportation equipment | \$1,184,206 | \$1,558,337 |
| Accumulated depreciation | 526,096 | 614,759 |
| Cost of owned transportation equipment less accumulated depreciation | \$ 658,110 | \$ 943,578 |
| Cost of leased transportation equipment | \$ 579,690 | \$ 632,296 |
| Depreciation | \$ 50,221 | \$ 63,579 |
| Lease rentals | 44,879 | 48,963 |
| Total expense | \$ 95,100 | \$ 112,542 |

Ms. MIKULSKI. Thank you, Mr. Buford. Your concept of Railbox is very innovative. Let me just ask your opinion on this issue of the backlog, if I may.

We are told we lack in productive capacity. And of course than my feeling would be, why do we not expand our productive capacity? Again, we have people in this country who need jobs; this is something that is a real job, doing something, producing something that the country needs.

My feeling is, the reason there is not an expansion of capacity to build rail cars is that deep down inside those manufacturers do not believe that there is a national commitment to keeping railroads alive, and therefore, why invest in the productive capacity—well, it would be like buying stock in zeppelin after the *Hindenburg*. Perhaps that is too dramatic.

Am I right in that assumption, or are there some other reasons?

Mr. BUFORD. Well, we obviously are trying to understand the problems of the carbuilders as best we can. I can only speculate on my feeling about their situation.

Ms. MIKULSKI. That is all I am asking.

Mr. BUFORD. First of all, I think that all of the carbuilders that I know are convinced that there is a long-term demand for freight car construction in the United States, rather than an appearance on the horizon of a depression in carbuilding. I think they are convinced that we are in a long-term expansion.

Every one of them that I am familiar with—and I go through those plants regularly because most all of them build cars for us and we watch this process to be sure that it is as we wish—they are all making capital improvements, both productive improvements and ability to improve the quality of their product.

The thing that is deterring more construction of rail cars in the United States right now is not carbuilders, they can build more than they are building; it is the availability of major castings that go into railroad cars—such things as bolsters, truck sideframes, if you are familiar with what those kinds of items are. There is a clear limitation. These, in turn, require very highly specialized foundries to produce. A new foundry today, for example, will cost around \$120 million in capital. The costs have been greatly exacerbated by air pollution problems, noise problems, and all of these things that have been the characteristic of the foundry industry. It has gotten so difficult that we and they are now buying major casting components from Canada, Mexico, and Europe to get enough of them to not only meet their car production schedules in the United States, but to maintain the existing fleet of cars in the United States. That is where the principal shortage is right now in the ability to expand cars.

Ms. MIKULSKI. Thank you. You are the first one to say that. Does your experience with your system of car control indicate that it could be used for the allocation of freight cars on a national basis? Could we have some type of regional allocation?

In other words, do you think Railbox could be duplicated, and that it could be in some way a model for a national network?

Mr. BUFORD. Well, Railbox itself is a nationwide activity, our cars run all over the United States today. The theory of the free-running concept is that each car is free to go to wherever the next

nearest load is that requires boxcar, and then after loading go wherever that load wants to go. It does not have to return on a particular route, or to a particular area. That is what is meant by "free running". This is the very same principle that we apply in our fleet of piggyback cars. We have about 42,000 cars that carry trailers and containers. They operate in exactly the same fashion.

What we do is work with railroads that typically unload more cars than they load and provide outlets for those cars being made empty, to move quickly to a road that is in need of more cars to load than it has available.

Ms. MIKULSKI. So Railbox was being used by Mr. Rukert instead of his being stuck with ConRail cars, and if he had 20 cars there that he unloaded and he had materials to fill 20 cars, he could use those same 20 cars?

Mr. BUFORD. I guess I should make clear at this point that Railbox itself is not a railroad, we operate no trains, we have no tracks. We are a supplier of railroad cars. We have agreements with railroads that are participants in this pool for boxcars.

The pooling is an activity of railroads using American Rail Box Car Co., as their agent, and in order for that type of thing to occur we had to go to the ICC and get permission under section 5(1) of the Interstate Commerce Act to initiate a pooling of a car service and resources. It is that device that permits this type of operation to take place. It is "national" in concept, that is to say, it is nationwide in its concept.

As far as its impact on boxcars is concerned, as I say, we had 10,000, we are growing to 13,700 this year. But this freedom to move wherever the next nearest load is, and then wherever that load wants to go means that our Railbox fleet is moving in a loaded condition 89 percent of the time. The average boxcar in the United States is loaded 61 percent of the time. You heard Mr. Dustin mention that it is worse than that on the Boston & Maine because of the peculiarity of the region where it is located, it unloads more than it loads.

Ms. MIKULSKI. Well, I will tell you, I am fascinated with this system that you have. I find it parallels with my own thinking of what are some of the things we should do.

I could keep you here all day, but I know you have a plane to catch. I am going to ask Mr. Skubitz if he has any questions, but before I yield to him, I would like for my own personal tutorial on this issue if you could send me a description of the way your system actually operates; and how you monitor cars. In other words, an organizational chart of your operation and how it works.

Mr. BUFORD. I will be glad to do that. You will find most of that in the material that I have submitted. But I will expand on that and send you some additional material if it would be helpful.

Ms. MIKULSKI. Almost like a case study, if you say, "I am a railroad car"—like "Run, Puff, run"—"and I go there", something like that would be helpful.

Mr. BUFORD. In last year's annual report, that is for the year 1976 we did exactly that. I will send you one of those. We said, "I am boxcar 'ought-bong' and here is what I do", and it took this car on a tour all over the country; it was loaded—unloaded—loaded.

Ms. MIKULSKI. I look forward to meeting that boxcar.

Mr. BUFORD. It is very interesting to see what happens to a free-running car.

Ms. MIKULSKI. Mr. Skubitz?

Mr. SKUBITZ. Thank you, Madam Chairman.

Mr. Buford, first, you have a plane to catch. What time do you want to get out of here?

Ms. MIKULSKI. An hour ago.

Mr. BUFORD. My plane goes at 7:30; so, however long it takes to get there.

Mr. SKUBITZ. I would like to ask a few questions, and I ask unanimous consent, Madam Chairman, that I be given permission to submit a number of written questions that have been given to me by some of my colleagues. I would ask if you would respond to those questions in writing.

Mr. BUFORD. I would be very happy to.

Ms. MIKULSKI. Without objection, it is so ordered.

[The following information was received for the record:]

QUESTIONS FOR CURTIS D. BUFORD, PRESIDENT, TRAILER TRAIN

1. Mr. Buford, this committee very much appreciates your making available to it your knowledge, expertise, and experience in setting up operations such as Trailer Train and Railbox, which to all evidence has contributed substantially to a reduction of the problems encountered with box car and flat car utilization. Obviously, you had to overcome a number of major road blocks to such operations both on the part of bureaucrats and presumably on the part of your 29 operating railroad owners. Would you describe for this committee what these major roadblocks were?

2. In your testimony, you comment on the extensive use of computer technology in the development of a comprehensive management information system. Are you to identify at any time the location of your equipment on any of the participating railroad lines?

3. Is not the lagging development of management information systems on such major railroads as ConRail a serious impediment to an efficient car management system?

4. What can be done to improve the national management information input?

5. Does Trailer Train and Railbox use the ACI method of labeling cars?

6. Would you be in favor of maintaining this system or do you feel that its reliability did not justify its cost?

7. You heard Mr. Sullivan suggest that an hourly car hire charge, rather than per diem, should be implemented. Would not such charges require a data acquisition and processing system beyond the reach of the technology available to the railroads?

8. You stressed in your testimony that the key to establishing a successful pool is industry acceptance and maximization of utilization of the equipment. Would a "power" pool resolve many of the problems associated with localized shortages due to unavailable power?

9. Do I understand correctly from your testimony that the administration of both Railbox and Trailer Train are consolidated, that is, that you use the same personnel and computer facilities to manage both operations?

10. If a hopper-car pool proves to be economical on study, would an operation such as yours have the capacity to integrate it within present facilities?

11. We realize the specialized nature of grain or coal hopper cars. Later on this afternoon, we will hear testimony by Mr. David Wagner, the transportation coordinator for the city of Baltimore. He will stress that the port of Baltimore has been losing ore ships through diversion to other ports due to perceived inadequate railcar supplies. Is it conceivable for a hopper car delivering coal to the port of Norfolk to be diverted by a pool operator, such as yourself, to the port of Baltimore to load or for a westward return journey?

ANSWERS OF CURTIS D. BUFORD, PRESIDENT, TRAILER TRAIN CO., TO QUESTIONS FROM SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE FREIGHT CAR UTILIZATION HEARINGS, JULY 25, 1978

1. As indicated in my statement, I do not believe it is fair to say that there were major bureaucratic and railroad-generated roadblocks to initiation of operations

with the Railbox pooling of box cars or the trailer train pooling of box cars or the Trailer Train pooling of flat cars.

On the contrary, when the railroad industry, by broad consensus, recognized that some additional car supply such as that which we might provide under a Railbox concept was desirable, their cooperation with us in initiating the program was prompt and complete. In addition, our petition to the Interstate Commerce Commission was granted with minimal delay. It is my recollection that we filed the petition about the first of March, 1974, and were granted approval on the first of August, 1974. In order words, the ICC reviewed the data and agreed to shortened procedure and did the whole job complete with final order in five months.

During the period of implementation, we had many meetings with railroad people dealing with a variety of subjects all leading to procedures and arrangements which would permit the pooling to operate effectively. The original procedural work has proved to be very sound leaving a minimal number of issues for resolution after the inception of the Railbox pool.

The Trailer Train pool, of course, covers an operation that was in being for a number of years during its initial growing era.

There has been need for some changes from time-to-time in that plan, all of which have been instituted with the benefit of cooperative input by the railroad industry. In short, the problems needing attention were not so much roadblocks as they were questions that needed factually based discussion and resolution. The railroads and, where applicable, the ICC, have been very cooperative in such matters.

2. I think the answer I gave at the hearing covers this matter adequately and I can think of nothing further to add on the subject at this time.

3. While it is true that the individual railroad car information systems vary considerably in their ability to produce accurate information, they are all in a constant state of development and improvement. The great majority of the railroad industry car movements are now covered on such computer oriented information systems. So far as our purposes and needs are concerned, we find the information sources from railroads generally adequate. Even though data on a particular car might be 24 hours old or older, we can always ascertain from the railroad most likely to have the car sufficient information on its whereabouts to satisfy our questions.

4. The answer to this question seems more appropriately addressed to the Association of American Railroads whose responsibility it is to deal with information on railroad cars among its member lines.

5. Trailer Train and Railbox followed railroad industry standards concerning ACI labeling of railroad cars from the time they were instituted. In response to recent action of the AAR, we have ceased labeling new cars or rebuilt cars and have discontinued label maintenance. We understand that very little use was made of the labels within the railroad industry for car location purposes due to the economics applicable. It does not seem economically justifiable for us to continue label installation and maintenance in view of the railroad industry's decision concerning discontinuance.

6. While we have discontinued installation and maintenance of the ACI label system, we would resume it if the railroad industry believed its resumption should be undertaken by complying with appropriate requirements of the AAR that would be established. We obtained no benefit from the ACI label system directly. The major experiment in the use of ACI label reading was in the Chicago terminal area and as a non-railroad we were not a party to it. We are not aware whether its existence improved the information transmitted to the AAR's train computer or not. Our participation in the labeling plan was due to AAR and industry standards and not related to any cost justification which would directly benefit us.

7. Hourly car hire has been established within the railroad industry and we have, cooperatively with our participant railroads, changed our own billing system to reflect hourly rather than daily car hire. There has been some delay in installing the system nationwide because of the information systems changes that were required, but it is my understanding that most of this task has been completed.

8. As I indicated in my testimony in response to a question whether pooling of grain cars and hopper cars would be helpful, I must answer that with respect to a "power" pool, the same answer applies. In other words, I simply don't know. A gathering of pertinent facts and information would be necessary before any conclusions could be drawn on this question. I do note that new locomotives are being ordered by railroads in large quantities, presumably to take care of growth in business as well as upgrading the size of locomotive units and increasing the efficiency and capacity of railroad motive power resources.

9. Railbox is a wholly-owned subsidiary of Trailer Train and with the benefit of a Technical and Administrative Services Agreement between the two companies, Railbox obtains all of its administration from Trailer Train Company. To put it another way, Railbox has no employees of its own and instead obtains all of its manpower needs through its service agreement with Trailer Train. Many of the operating procedures are the same but they are kept separate from the Trailer Train data for management, administrative, financial and other practical reasons. As a result of these arrangements, the same personnel and computer facilities are utilized to manage the operations of both companies.

10. We had to add some new Trailer Train personnel in small numbers to handle the Railbox operation when we took that on as a subsidiary function to Trailer Train Company. Accordingly, if we took on pool operations of additional car types, I would expect again the necessity for some moderate augmentation of our staff. Our staff is very small with highly refined duties so that, administratively, new car poolings can be undertaken with very modest expansion of costs. I have, however, no study on which to estimate the incremental administrative cost.

11. Although some railroad-owned cars are restricted against being reloaded for the reverse of their original loaded movement, arrangements to allow such return loading are now able to be made on a proper factual showing with the ICC. The AAR characteristically facilitates such arrangements.

On the other hand, our concept of a free running pool allows railroad participants to move any pooled car to the next nearest location where there is a load requiring transportation to any U.S. destination. In this respect, the using carrier treats a pool car just like it would treat a car it owned itself. The railroad car distributor makes a decision on how to equitably distribute cars between points having loading in order to most fairly and efficiently utilize available empty cars to transport loads. Within this framework, it is certainly possible and conceivable for a hopper car to be made empty at Norfolk to handle a west bound load from Baltimore. Our normal practice is to arrange for an outlet for empty equipment being unloaded in a primarily unloading area to other railroads who have need for such empty equipment to protect loading in an area other than where the car has been made empty.

Dated: August 7, 1978.

Mr. SKUBITZ. With that understanding, first, on behalf of the committee and myself, Mr. Buford, we do appreciate your coming here today because this is another approach to try to solve our boxcar and flatcar problem.

Of course, my interest here is, can this system also be applied to hopper cars. What would be your response to that?

Mr. BUFORD. Well, the answer—and I do not mean this to be a short answer—but I really do not know. What I am trying to say is, that in order to reach a conclusion it would be necessary for us to gather some rather specific information on—take coal cars, for example. We need to know all of the commodities that move in those cars; what the volumes are; where they originate; where they terminate; where the flows of cars are from one State or region into another; between one region and another. We would have to discover what the opportunity is for multiple loading of cars.

Mr. SKUBITZ. This is the point that bother me. I can see in the shipment of coal, for example, or something of that nature, it may be a long trip across the country delivering a hopper, a gondola of coal; but what is it going to take back?

Mr. BUFORD. Well, these are real questions and you cannot really guess at the answer. So, I guess I would have to say to you that I do not know whether this pooling concept would exactly fit the hopper car business. It is a different kind of thing that has to be analyzed specifically.

Mr. SKUBITZ. The thing that raises the question, you have heard the gentlemen from Baltimore speaking about their problems. Now, you are going to haul ore into Baltimore. The question is, what are you going to haul out of Baltimore?

Mr. BUFORD. Well, in some respects there are two-way hauls. It is not unusual for hopper cars to carry coal in one direction and either limestone or ore in the other direction. Take, for example, the steelmaking facilities in the Pittsburgh region. Typically, the ore comes down from the lower lake ports, as well as limestone, into the Pittsburgh area. The cars are emptied at the steel mills; they go south to the coal mines in northern West Virginia and back up again, that sort of thing. So, there are some cases where there is multiple use of the car, but it is inappropriate to guess at it. You have to study it and understand what you are getting into.

Mr. SKUBITZ. I agree with you. I do not think it is a thing where we can say, "Oh, it is working here, it is going to work somewhere else."

Mr. BUFORD. That is right.

Mr. SKUBITZ. I am sure that you ran into a number of roadblocks in setting up this system, along with the owners and operators—29 of them—and the bureaucrats downtown. Would you care to comment and tell this committee what some of your problems were?

Mr. BUFORD. Well, I cannot say that we had any real serious problems that were very difficult to overcome. Railbox got born because there was, first of all, a real perceived need for some kind of an additional boxcar supply.

Second, there was a good study performed to determine these kinds of things that I have outlined in my statement, the kind of factual information that is required to make the decision about what kind of an operating mechanism will fit that need, after we had that in mind, we then had committees of railroad people from all over the country get together and work out what they perceived as a difficult situation, until we finally had something that they were broadly satisfied with. Then we had to figure out a way to get it financed. After all of this, we then went to the Interstate Commerce Commission to get the pooling accomplished.

When we went to the ICC they acted in 4 months on our petition for a pooling and approved it, which in itself was some kind of a record.

Mr. SKUBITZ [presiding]. That calls for a communications system, and my understanding of that is that all of the lines, the participating lines, have a computer system, so they can track the cars. Would you care to comment on that?

Mr. BUFORD. Yes. For the most part these days the railroads have a computer-based information system dealing with car location. The efficiency of those systems does vary from railroad to railroad, but in general they are all steadily improving in reducing the amount of time that it takes to identify a particular car left station X and moved to station Y, and to get that bit of information transmitted to the AAR train two computer, based in Washington, which Mr. Dempsey commented on.

We have a hookup with that train two computer, and we effectively draw the information out of that computer on every car on our fleet, the last move that it made. We do that two or three times a day, so that in our computer we have a reasonably up-to-date picture of where our about 95,000 cars in the country are. We accumulate in our computer a record showing every move that car has made for the previous year, so that we now have the means to

develop all sorts of data; we have a means to develop billing information for the use of the cars maintenance information, all of the things that it takes to operate a pool.

Mr. SKUBITZ. I believe you said you had 95,000 cars. Now, how are these distributed, how many boxcars do you have, how many railcars, and how many flatcars?

Mr. BUFORD. We have about—at this moment, we have about 12,000 boxcars. We have about 83,000 flatcars—I may be a bit off on these quantities—but they are on the order of 42,000 intermodal cars, that is cars that carry trailers and/or containers; about 26,000 cars that carry new automobiles; and the remainder are a variety of flatcars that carry agricultural machinery, military equipment, structural shapes, lumber, plywood, a whole host of materials.

Mr. SKUBITZ. But you have a limited supply of boxcars, 12,000 cars?

Mr. BUFORD. That fleet just got born in 1974. We installed 1,000 cars in 1974, 7,000 in 1975, and 2,000 in 1976. We did not add any in the year 1977, and in 1978 we are adding 3,700; we plan about 5,000 in the year thereafter.

Mr. SKUBITZ. Now, you have 29 railroads that have gone in and own the stock in this company; is that correct?

Mr. BUFORD. In Trailer Train, correct.

Mr. SKUBITZ. Does each company own the same amount of stock?

Mr. BUFORD. Initially there were 40 railroads and one freight forwarder as the maximum head count of shareholders. And then, with mergers, some of those rail head counts shrunk. So, in the case, for example, of Burlington-Northern, they owned three blocks of stock because of three former railroads. That gives them about 7.1 percent of our stock, and that is as big as anybody is, so that we do not have one major stockholder, we have a variety of moderate, small stockholders.

Mr. SKUBITZ. If you have two or three calls for cars, how do you determine which company gets the cars?

Mr. BUFORD. We have worked extensively with the railroad transportation people in the country over a period of time and have developed an approach that we call distributing the cars in ratio to relative need. Now, what we have done here is evolve a formula related to how many cars a railroad has on line at a given level of loadings. We can develop a kind of a factor that is different from one railroad to another, that really relates to the operating characteristics of that particular geographic railroad. We have a pretty good idea about how many cars it takes to maintain a given level of loadings per week.

So, if somebody is way below that level and somebody has a car supply way above what that portion for that individual line is, we have been given the authority by the railroads to withdraw cars from the high fellow and give them to the low fellow. We had to work that out with them. That took a little time, but we got it worked out.

Mr. SKUBITZ. We will submit a list of written questions to you for the record because you have a 7:30 plane and it is 6:30 now.

Mr. BUFORD. All right.

Mr. SKUBITZ. One short question. Does any railroad other than the railroads that have stock in the company ever call on these cars?

Mr. BUFORD. Trailer Train is a stockholder-oriented pooling agreement, and so just those roads that have stock in Trailer Train have a call upon it. However, Railbox is a wholly-owned subsidiary of Trailer Train, and in that case we established a uniquely different thing. Any railroad in the country that wants to be a pool participant in Railbox is free to do so by signing a contract with us that says, "We will do certain things and you will do certain things," and 245 railroads signed up.

Mr. SKUBITZ. Thank you so much. Thank you for coming, and we apologize that you had to wait so long to get on the stand.

Mr. BUFORD. Thank you.

Mr. SKUBITZ. I believe we have a panel group, made up of Mr. J. L. Jackson, Mr. Noah A. Bentley, Mr. Cloyd D. McDowell. Would you come up to the table?

I understand Mr. McDowell has gone home, Mr. Bentley has gone. Mr. Jackson?

Mr. JACKSON. I guess I am the "panel."

Mr. SKUBITZ. I want to apologize, Mr. Jackson, for keeping you so long. I promised Dr. Carter that I would stay and listen to the people from Kentucky—so, I am here. You have as much time as you want.

Mr. JACKSON. Thank you, Mr. Chairman. Well, I think I have missed my plane, so I probably have more time than you do at this point.

Mr. SKUBITZ. Off the record.

[Discussion off the record.]

STATEMENT OF J. L. JACKSON, PRESIDENT, FALCON COAL CO.

Mr. JACKSON. With your permission, I have a short statement, I would like to read it hurriedly, at least the major portion of it, and then make some more specific points; then try to answer any questions that you may have.

Coal hauling service by the railroads in America prompts great cause for concern. We should not attempt to oversimplify the problem by characterizing it as a "shortage of hopper cars," or "shortage of locomotive power"—I think this is generally done. The problem is far more complex and cannot be resolved simply through the purchase of additional rolling stock. Such factors as roadbed and track conditions, insufficient passing tracks, outmoded rail yards, restrictive ICC regulations, inadequate investment capital, and monopolistic controls all contribute to inadequate service performance by some of the major coal-hauling railroads.

To unequivocally demonstrate that a serious problem does exist, an examination of service records of one of the major eastern coal-hauling railroads shows a decline in service from just below 50 percent of that requested in February 1977—and this is a single car request that I am referring to—to below 17 percent by April 1978. The decline was consistent and steady during this period with the exception of January 1978, when extremely adverse weather conditions almost eliminated requests for service. The most disturbing aspect of this situation for the shippers on the railroad is that a

senior officer of that railroad is quoted since—and this is recently—as testifying, “It is my opinion that the railroad has done a good job in moving coal for the shippers located on its lines.” If we cannot make the railroads realize that they have a problem on services this poor, I do not know what we are going to do.

Currently the railroads are beset with myriad restrictions, all of which are negatively affecting capacity and reliable service. They have their problems. Service inadequacies manifest themselves in the form of locomotive and hopper car shortages, limiting producers’ shipments. Proper inventories of rolling stock equipment have been difficult to gauge due to the historical cyclical demand for coal. During peak demand, severe shortages persist, and in times of minimum demand, some equipment surpluses occur. Improper maintenance of track and facilities is now causing excessive derailments and unusually slow traffic movements from mine to destination plant.

ICC regulations that were initiated back when most coal movements were to industrial customers in single car or small volume lots, are improper when applied to today’s large volume unit-train shipments to utilities. The very regulations that were enacted in past years to assure equitable distribution of available rail service in times of inadequate supply are the cause of inefficient use of equipment by the railroads now that most major hauling is in large bulk volumes from single shippers to single destination points.

A good example of the inefficiency caused by regulations is demonstrated by the case of a coal operator who ships large volumes of coal to a utility in trainload lots under a long-term coal sales agreement. Consider a producer shipping a million tons a year from a single rail-loading facility to a single steamplant under a 15-year coal supply agreement. Such a rail movement is very efficient. A large group of hopper cars can be kept together along with locomotives to pull them, and they can be shuttled back and forth from mine to steam plant. A similar number of hopper cars that would be required to be gathered from various shipping points and distributed to numerous destinations and then gathered and returned, is very inefficient. The volume shipment is a much more proper use of railroad equipment. That is, the same amount of equipment will move a far greater volume of coal from mine to destination.

The railroads, however, cannot commit equipment to such efficient use. Because of ICC regulations, during peak demand when the railroads are called upon to be more efficient and move record volumes of coal, these efficient bulk movements must be broken up and the equipment distributed equitably to all shippers requesting service. No consideration is made for long-term commitments or volume shipments compared to new spot orders or single car shipments.

For these reasons, in times that the system is called upon to be most efficient, it is in fact least efficient. Few people are aware that the railroads cannot guarantee timely movement of coal from mine to plant. Naturally, investments in new mining and plant capacity are inhibited since there is no assurance that the railroad can deliver the coal, even to a customer under a guaranteed long-term sales agreement. The railroad cannot be assured of a calculat-

ed return on investment for new rolling stock since a unit purchased for and intended to move coal on an efficient bulk movement is subject to be broken up and consigned to an inefficient single car movement.

Part of the problem could be resolved by a comprehensive review of the tariff system with proper consideration given to adjusted rates reflecting the efficiency of the use of that equipment. Allowances should be made for dedicated equipment to move regular shipments under long-term supply agreements, whether they are large shipments or small shipments. It should be possible to have guaranteed service to move coal under such sales commitments so that the investments in new production capacity can be justified. Permission for the railroads to enter into contracts for hauling coal, as suggested in a recent Department of Transportation task force report, could resolve some of the service assurance problems.

Assistance in the area of capital formation problems could come through the improvement in investment tax credit and low interest loans, where needed. Proper use of a railroad's capital should be assured, however, before financial help from the Government is available. There are instances in which railroads are pleading for financial aid while having substantial investments in nonrelated businesses. Under their certificates and licenses for operating the primary responsibility is to provide reasonable transportation service.

The use of additional private equipment (hopper cars and locomotives) on the railroad could alleviate the intense capital investment requirements facing them to meet increasing service demands. There is currently little incentive, though, for coal shippers or customers to purchase private equipment. Although a reduced freight rate or a fee per-loaded-car-mile is available, these terms do not assure a reasonable return on the investment. The railroad will not, cannot guarantee to timely move the private equipment placed on its lines; therefore, any compensation tied to movement may prove totally inadequate. A commitment in the form of a contract or a reasonable per diem charge would greatly improve the incentive for purchase and use of private equipment on the railroads.

Today more than ever before it is imperative that our railroads be made to operate efficiently in the movement of coal. In view of the critical energy situation our Nation is facing, and the threat of an ever-increasing balance-of-payments deficit due in part to imported oil requirements, we must rely more heavily on our coal resources as a domestic fuel. Coal supplies will be available only when coal transportation is reliable. Newly assigned air quality standards at coal-fired steamplants all across the country can only be achieved if the specific coals contracted for are delivered to the appropriate plants. Adequate railroad transportation of coal is critical.

The conclusion in a recently released Department of Transportation coal transportation task force report that the railroads have the capacity to carry the coal traffic projected for the future considered certain important changes. Financial assistance and the right to contract-haul are mentioned among measures to be taken. Before these measures and others are approved and implemented,

there must first be a broader, more urgent recognition of the critical situation.

In covering one area that I have heard discussed here this afternoon, that of the small operator, as opposed to the large operator, I am not sure how advised the committee is on the distinction between a large operator and a small operator. There are many large operators—of whom my company may be considered one, since we mine and ship in excess of 5 million tons of coal a year. There are many large operators who ship under identical conditions with the small operators, that is, much of the coal moves in the single car movement. In our case, my company's case, approximately half of our production is moved to our customers through single car movement on the same allocation basis as any shipper, whether he ships 10 cars a week, or 1,000. The other half is moved on a unit-train basis. In our particular instance, all of our coal is moved under long-term contract supply arrangements with utilities.

But there is a misconception about the degree of service supplied to the single car mover, as opposed to the unit-train mover. The reason for the distinction is, we are trying to compare apples and oranges.

The allocation of equipment out of a unit-train pool is made based on the railroad's understanding from the customer or the utility as to how many unit-trains per week, or per other period of time, they require. Then service within that classification, unit-train classification, is allocated on the basis of equitable distribution within that unit-train pool. So, in the case that was mentioned earlier, approximately 60 percent of the unit-train service requested was being supplied.

Now, this is 60 percent of actual requirements on the part of the shipper and the customer. In the case of the single car hopper movements, the allocation for service is based on a rating that is assigned to each shipping point. The single car movements, or the allocations of these ratings, are assigned based on the physical capacity of the loading facility, and not on the requirement of the customer for coal, nor on the ability of the shipper to load cars.

So, if I have a siding, a single-car siding that has a rating of 20 cars per day, and I have a mine that has a mine capacity of, let us say, 60 cars per week, then I can order cars and, until I have received as much as 60-car capacity, can continue ordering them. So, if the percent car supply allocation in the common hopper pool is 50 percent, I would order cars 6 days, and I would get allocated cars 3 days. So, the record would show that I am getting a 50-percent car supply whereas in reality I would be getting 100 percent car supply. We are trying to compare this percent service with the other, which is a percentage of an actual amount required by a customer.

This rating game is played throughout the coal industry. We do it; other shippers do it in order to protect themselves, to get a percentage of whatever is available. Neither of these should really be pertinent because if adequate service were being performed it should be performed for all classifications of service, whether it is unit-train or single car hopper.

The 20 percent car supply that was mentioned and compared to the 60 percent car supply could be shown to be equitable in that

the 20 percent may very well be 60 percent of the amount that is really available to be shipped.

A shipper who has a small loading facility can stockpile coal at the facility 3 days a week, order cars, and then load the cars that are placed in there. Therefore, he demonstrates that he has the ability to ship what he has ordered.

I do not know whether you understand this—it is very complicated—but this is a real problem.

Mr. SKUBITZ. I brought attention to a case here that Dr. Carter mentioned; namely, that one of the small producers was getting only 20 percent of the cars that he needed in order to carry on his operation, and that his coal had to be dumped on the ground because he was not getting the cars.

Now, if I understand you correctly, in an instance like that, placing it on the ground is what you call "stockpiling"; is that correct?

Mr. JACKSON. Stockpiling is at the tipple.

Mr. SKUBITZ. Stockpiling at the tipple means placing it on the siding somewhere, not in a car, put in a pile; is that correct?

Mr. JACKSON. That is correct.

Mr. SKUBITZ. Of course, then, if he does it, it calls for a second loading; is that correct?

Mr. JACKSON. It calls for rehandling of it.

Mr. SKUBITZ. Rehandling, and this becomes quite a cost item; does it not?

Mr. JACKSON. We do that on a regular basis because of the inadequate car supply. At all of our shipping facilities we do that on a regular basis.

Mr. SKUBITZ. But what would you consider the cost of that to be; what would it add to the cost of a ton of coal?

Mr. JACKSON. Well, the rehandling would probably be at least 50 cents per ton, and the contamination from putting it on the ground and picking it up would be—not telling how much, depending on whether there are muddy conditions or dry conditions. But it adds substantially to the cost.

Mr. SKUBITZ. Well, certainly on a small operator, the size of the one Mr. Carter called attention to.

Mr. JACKSON. There is no distinction between the small operator. Our company ships on that same division that he was referring to, and the 20-percent supply was 20 percent allocated to all shippers that are ordering a single-car supply of coal coals, of which we are one. About half of our coal is moved on that same movement.

Mr. SKUBITZ. Well, when you say 20 percent, then I understand you to say that 20 percent could actually be over several days, amount to the total amount of cars that you need, or 60 percent of the cars that you need?

Mr. JACKSON. It is impossible to say what percent of the actual required shipping capacity that 20 percent represents. Let me try to demonstrate it again. If I had, say, a 20-car siding and I had the capacity for mining only 20 cars a week, and I had to order cars 6 days in order to be placed 20 cars, that would represent a 16⅔ percent supply; but in my case it would represent 100 percent of my production capacity.

Mr. SKUBITZ. Well, what you are saying, you have a 20-car siding, but you produce how many tons a day?

Mr. JACKSON. Well, that is the difference. What I am saying is, if 100 percent were supplied, that is, cars were placed at that facility 6 days a week, there is no way that the shipper—

Mr. SKUBITZ. Could possibly load the cars.

Mr. JACKSON. That is right. So, the 20 percent is misleading. It is considerably less than the required amount to move the coal, but it is not an accurate reflection of the amount available to be moved. I am saying, if the railroad were in a position to supply 100 percent, it would not be proportionally more than the 20-percent car supply that is being supplied.

This is really almost beside point because, whether we are getting a 20-percent car supply or a 60-percent car supply, we cannot plan our mines, and hire people, and have sales commitments that are based on a certain volume—whether it is 20 percent or 50 percent—and still continue in business.

Mr. SKUBITZ. This was the question I was going to ask, yours is 5 million tons. Now, is that considered a big, or a small concern?

Mr. JACKSON. That is a good-size business.

Mr. SKUBITZ. It is a large concern.

Mr. JACKSON. Yes, sir.

Mr. SKUBITZ. I assume that you are under contract with any number of utilities, for example, that need so much coal; and they need coal on a certain day. Is that correct?

Mr. JACKSON. Not only on a certain day, but to a specific plant.

Mr. SKUBITZ. And if you do not deliver that coal, then you are subject to some sort of a penalty?

Mr. JACKSON. Well, we would be, but in their wisdom, I guess, in drawing up these long-term contracts, one of the force majeure provisions in the contract excuses deliveries from the shipper if there are railcar problems, or transportation is one of his problems. So, many, many deliveries are excused due to the force majeure provision.

This does not solve our problems, nor the utility customers' because, especially in recent times when the utilities under EPA regulations have had to go out and pay much higher prices for specific coals that will allow them to comply with EPA air quality standards at specific plants, that coal is tailored to go to that specific plant. If it is not delivered, they are going to be fined very heavily for not being in compliance with air quality standards. So, it is much more important to them now than ever before to get the particular coal that they have contracted for delivered to the specific plant it was intended for.

Mr. SKUBITZ. Have you finished your testimony, Mr. Jackson?

Mr. JACKSON. One other comment about private ownership of railcars. There is little or no incentive for shippers, nor customers, to purchase private equipment to put on the railroads because there can be no assurance given of any kind of timely movement of that equipment.

Mr. SKUBITZ. Why not? You mean you are supplying the cars, that is what you are talking about?

Mr. JACKSON. Yes, sir.

Mr. SKUBITZ. And yet, you cannot get any guarantee that those cars will be moved for you?

Mr. JACKSON. That is right.

Mr. SKUBITZ. What is the excuse for that, lack of locomotive power, or what?

Mr. JACKSON. No, the railroads do not have the flexibility, apparently, or the permission to consign locomotive power to that use. So, if they had adequate locomotive power and adequate crews, and if they did not have rail problems, and repairs, and delays, then they could do it. But they cannot consign locomotive power to that use, especially in times when they may have shortages elsewhere. So, they cannot contract or give guarantees for the movement of private equipment.

Mr. SKUBITZ. Well, that is the locomotive equipment, then.

Mr. JACKSON. Not only the locomotives, for whatever reason that they cannot move the private equipment.

Mr. SKUBITZ. Well, for instance, what other reason could come up, crews?

Mr. JACKSON. We have had, just like you said about the cold winters and the explosions, we have had every conceivable reason from a lack of crews, to a lack of cabooses, to a lack of locomotive power, to a lack of hopper cars.

Mr. SKUBITZ. Well, that is true, but I mean, it just seems to me if you provided the cars that in most instances they could make the deliveries.

Mr. JACKSON. The cannot, and do not.

Mr. SKUBITZ. Do you have any cars?

Mr. JACKSON. We have a customer—

Mr. SKUBITZ. I asked a question, do you have any cars?

Mr. JACKSON. We are purchasing some.

Mr. SKUBITZ. You do not have any now?

Mr. JACKSON. No, sir.

Mr. SKUBITZ. So, you are not speaking from experience.

Mr. JACKSON. Yes, I am. Let me tell you about the private cars that are in our service, that one of our customers owns. We have contracted with Detroit Edison for the movement of 1½ million tons a year of coal from our mines to their plants in Michigan, in Detroit. They have agreed, along with the railroad, that there are more than adequate cars in that service to move that volume of coal under any kind of reasonable movement, without unreasonable delays.

In that private equipment, last year, we delivered that customer less than two-thirds of the required volume.

Mr. SKUBITZ. What was the reason for the failure to deliver the other third?

Mr. JACKSON. They simply did not get the private cars moved. You have no recourse, no action that can be taken against the railroad.

Mr. SKUBITZ. I can understand that, and I can understand if you have a weather condition, you cannot move the coal. I can understand the condition where you have an explosion, or a wreck, and the cars are tied up. I do not understand the condition where they have the cars to move, but do not have the locomotion, the loco-

tives to move the coal because their very existence and profit is involved in moving.

Mr. JACKSON. That is right.

Mr. SKUBITZ. What railroad are you talking about, is that the L. & N. again?

Mr. JACKSON. It happens to be the L. & N.

Mr. SKUBITZ. It pays dividends to the Seaboard and does not buy equipment. Thank you.

Mr. JACKSON. They do not do a lot of things. There is not enough accountability of the railroads, and this particular railroad has been very interested in soliciting its shippers and the customers on the railroad to purchase private equipment.

Mr. SKUBITZ. Well, by "private equipment," are you talking about locomotives?

Mr. JACKSON. In the past it has not included locomotives, just hopper cars. I think, possibly, in the future they may even urge people, shippers, and others, to buy locomotives.

Mr. SKUBITZ. Well, what do they have to sell if you buy the hoppers, and you buy the locomotives? They are going to rent you the use of their track, that is what we are talking about.

Mr. JACKSON. And their crews to run them, that is right. I personally believe, in order to help the railroads—I think they are going to need all the help they can get because of the increase in the demand for moving coal in the next 5 years, the condition that they are already in, plus the increase in demand, there is no way that some of them are going to be financially able to gear up and do this. I think the use of more private equipment on the railroad is part of the answer. Just like the gentleman who was testifying before me here; an example of the use of private equipment that is resulting in a pretty profitable operation.

But in order to entice shippers, or utilities, or customers to put equipment in service on the railroads, we have to have some provision for assurance of a reasonable return on that investment, and under current regulations and law we simply do not have it. The railroads, I am informed, do not have the ability to enter into contract hauling; they cannot contract to even haul private equipment, much less contract with me to haul my coal in their own equipment. I think contract hauling may be part of the answer.

Mr. SKUBITZ. You will be sorry you said that.

Mr. JACKSON. I think that contract hauling could be done without discrimination.

Mr. SKUBITZ. Then it gets into a case of bidding for our services.

Mr. JACKSON. No, we simply have to put some responsibility on the other side. I would certainly be willing to assume the responsibility for guaranteeing coal to be moved if I could only get them to assume the responsibility for moving it, even to the point of buying private equipment. But we cannot do that. ICC regulations, inadequate incentives on the part of investors in private equipment just do not allow you to do that.

Mr. SKUBITZ. Any more testimony?

Mr. JACKSON. I believe that is it.

Mr. SKUBITZ. I have a couple of questions that my colleagues have handed me, that I would like to read to you and have you respond to them. The first one is one that my colleague has given.

In the State of Kentucky, as I understand it, on January 3 of this year there was a bill introduced, H.R. 109, and this bill was to provide funds for the financing of grain and coal hopper cars.

Can you explain to me why that was overwhelmingly defeated in the State legislature; and two, why the chamber of commerce was violently opposed to it?

Mr. JACKSON. I am not certain about all the reasons that they had. This matter came before a transportation task force that was set up by the department of commerce in Kentucky, the task force of which I was a member. The L. & N. Seaboard Coastline were strongly in favor of this bonding issue. We simply could not get information from them that there was any assurance, if that money were available and those hopper cars were bought, that we would have any guarantee of service. That is why I am so opposed to simply throwing money at the car hopper problem.

As I gave you an example, one of our customers owns more than adequate private equipment in the service of the railroad and are still not getting their coal moved. So, simply hopper car acquisition is not the answer.

Mr. SKUBITZ. One question, when you provide a hopper car, your own car, to the railroad to haul your coal, is there a different rate charged than when you rent a car?

Mr. JACKSON. Yes, there is, but it is tied to the movement of those cars. And, since you have no assurance of timely movements, it is unpredictable as to what kind of return you can get on your investment.

The incentive, or the compensation for the use of private equipment comes in two forms; one either a reduced freight rate on that particular movement; or on a fee, I believe it is 7.5 cents per loaded car-mile. Either of these are tied to utilization of the equipment. So, if the cars are left on the siding somewhere and not moved timely, then your economics for purchase of those cars goes out the window.

In the face of it some of us are buying cars in self-defense, even though we have no assurance whatsoever of any kind of reasonable return on those investments. We are doing it because we think that possibly the additional amount of coal that we can get moved that way will pay for the investment. It is certainly not because of the savings that we can get in our freight rate, or compensation for the use of the private equipment.

Mr. SKUBITZ. As a shipper, would you be in favor of long-term contracts with the railroad for the supply of hopper cars, such as a contract on a take or pay basis that might require the railroad to deliver you 30 cars a week, with penalties for failure to deliver and/or failure to utilize the cars?

Mr. JACKSON. I think that is what I am referring to when I say we should consider contract hauling.

Mr. SKUBITZ. You would favor that sort of a program?

Mr. JACKSON. And I do not see that it need be discriminatory against small shippers as opposed to large shippers. If the railroad is made to offer that same type of contractual service, with a variation, of course, in the tariff, depending on the volume of movement, or whatever.

But part of the problem, or the inequity in the distribution of rail cars is that, for example, in 1974 when there was an extremely strong demand for additional service to move coal, everyone whose attention it came to that the coal business was attractive with the \$30 per ton price of coal at that time, got into the coal business, located a shipping facility along the rail line and requested service.

In our particular case, we were very heavily committed in 1973 to long-term contract shipments. In 1974 we actually shipped less coal on the railroad than we did in 1973 because much of the equipment that we had at our disposal and our use in 1973 was taken and reconsigned to people who got into business in 1974, that were attracted by the new market. So, we not only did not get to participate to any reasonable degree in the new, attractive spot market, we could not even ship to our customers that we had been shipping to under long-term contractual commitments for many years.

Mr. SKUBITZ. Railroads are permitted by the 4-R Act of 1976 to charge higher rates in certain circumstances to help fund capital improvements. From your standpoint as a coal shipper, would you be willing to pay a higher rate if the revenues were used for servicing improved investments?

Mr. JACKSON. You have me between the rock and a hard place there because most of the shippers in coal do not pay the tariff, the customer pays the tariff. Naturally, if the tariff were to get so high that we could not compete with other areas in the price of delivering our product, then it would be punitive to us.

However, I think this is one of the problems I cannot help but agree with the railroads on. If the economics of their business does not justify their existence and a reasonable profit is not available to them, then I think, certainly, the tariff should be looked at. Coal customers, naturally, are trying to get the lowest tariff that they can.

Mr. SKUBITZ. Are you in danger of losing your markets because of higher transportation cost, or anything of that nature? It seems to me like because of the demand for coal today, that anyone can sell the coal, it is not like it was 50 years ago.

Mr. JACKSON. If there is equity in higher rates, in other words, if it is across the board and not just one particular area then I think, no, I do not think that higher rates would interfere with our market. One thing that would and is interfering with it is the railroad's inability to be a dependable source of supply. So, many people who might otherwise buy coal in our district, if they look at it and say we cannot rely upon a coal source there because the railroad over the years has demonstrated its inability to deliver the coal, then they will look to other areas they think are more dependable. Our market certainly is being affected by that.

Mr. SKUBITZ. Now I will give you 3 minutes to answer this question. How have the railroads with whom you deal responded to your complaints about services and car shortages?

Mr. JACKSON. Three minutes?

Mr. SKUBITZ. Yes.

Mr. JACKSON. Well, I guess I can say "little" and "none". We have had very poor response, and not only that, we have had very little sympathy. If the American Association of Railroads is not

wed to the ICC, we do not even have a girl friend because we certainly have gotten no help from the ICC. We have made numerous and detailed complaints to the ICC—their files are chockfull of details and records showing what I consider certainly to be inadequate and unreasonable service; and we have had little or no action from them. As a matter of fact, I think that these fines that were mentioned here today have simply been levied against them, they have not been collected.

The ICC has in my opinion been remiss in doing its job to see that the railroads perform reasonable service.

Mr. SKUBITZ. Do you think it is just a husband-and-wife row?

Mr. JACKSON. I do not think there is a friend in the whole group.

Mr. SKUBITZ. Well, thank you so much, Mr. Jackson, for staying and testifying. If there is any material that you would like to have included in the record, it will be inserted at this point.

Mr. JACKSON. Thank you, Mr. Chairman, I appreciate the opportunity.

Mr. SKUBITZ. Mr. Bernard Mayer, Siemens Corp.

STATEMENT OF BERNARD MAYER, EXECUTIVE VICE PRESIDENT, SIEMENS CORP., ACCOMPANIED BY MARTIN J. FIRESTONE, WASHINGTON COUNSEL, AND KNUT E. KOEHN, PRODUCT MANAGER

Mr. MAYER. Mr. Chairman, my name is Bernard Mayer, and I want to thank you for staying so late tonight.

Mr. SKUBITZ. That is just a habit of a good Republican, to stay.

Mr. MAYER. May I introduce Mr. Firestone, our Washington counsel, and Mr. Koehn, who is product manager for our railway signaling equipment.

I will paraphrase my statement to save time, and I hope you will enter it into the record.

Mr. SKUBITZ. The statement will be incorporated in the record.

Mr. MAYER. I am a group vice president of Siemens Corp., which is a subsidiary of Siemens, A.G., one of the five largest electrical companies in the world, with sales in excess of \$12 billion.

We manufacture, distribute, and sell our products in the United States and in 120 countries in the world. We have employed in the United States 3,000 people and we have seven factories. Thus, we are very active. The company is 130 years old and has been active for a hundred years supplying railway signaling equipment to the industry and to the world.

It is unfortunate, but I wish you would convey particularly to Ms. Mikulski her concern. One, we think there is a Santa Claus, and we also would like to tell you that there is an advanced ACI system. There is a system that is sophisticated, if not space age, is fully capable, is technically tested, proven and available. We are addressing ourselves not only to the solution of what we think is a continuous problem. Whether you get more cars or not, you have to find them, you have to know where they are; and the more cars, the messier it gets.

We do not want to over simplify the problem; it is a simple problem, just because of ACI. The interested private parties—the railroads, the shippers, the equipment suppliers—understand the seriousness of the problem and the need to deal with it. They

should be encouraged to move a little more aggressively, and I think from what I saw today, this committee is acting in this direction.

The existence of the car shortage is really not to be taken as evidence that the railroad or the equipment suppliers have ignored the need. There have been systems in work over the last 10 years to prepare and to solicit the use of ACI systems which they believe would provide for identification and location capability. Actual experience, however, was less than satisfactory for a variety of reasons. In the existing technology, it does not meet the needs of the railway systems. The cooling of interest in ACI, in fact, is based both on the technological experience of this older technology, and also on the financial crunch that the railroads experience.

During the past decade there have been significant advances in electronic and computer technology. In response to this challenge, Siemens has developed what we think is really a second-generation system for use both in the United States and worldwide. It is called the SICARID system, and it meets all of the technical characteristics that have been established by the AAR and the railroads. I will not burden you with the technical details; suffice it to say, we have given it to the committee. I will just give you a very short overview.

Essentially, the system has a transmitting unit between the tracks; it has a transponder on every car; it is completely independent of temperature, climate, and of all these conditions. The components of SICARID, brought together in a unified system, provide the railroads with an automatic, accurate, and instantaneous—even under these adverse conditions—car information that they need. The system is capable of reading a 13-decimal digit identification within a quarter of a millisecond—or almost 4,000 car identification readings per second, at this speed it can even identify a car going in excess of 120 miles an hour.

This system has been fully tested; it has been shown to have an error rate of less than one undetected error in every 10 billion readings. This testing was done by the Organization of Research and Experiment in Holland under the supervision of the International Union of Railroads, which is the European equivalent of the AAR.

You can see from the foregoing that we believe SICARID fulfills the unmet needs of the railroads for an effective, accurate, and reliable car identification system. With the SICARID system in operation, the railroads would unquestionably have available the car identification and location data they essentially need; the absence of this is a significant causal factor in today's car shortage.

We are prepared to introduce the SICARID system and deliver it within 9 months. However, life is not so simple, and there are complications on which this committee can be helpful. This technology uses high frequency band widths, and therefore, it cannot be installed until the Federal Communications Commission accepts the equipment and issues the certification.

Mr. SKUBITZ. Have you asked for that?

Mr. MAYER. Yes, we have, sir.

The technical concepts employed, unfortunately, are so advanced that they are beyond the contemplation of the FCC's rules and

regulations. So, we need type acceptance. We have to amend the rules.

We have petitioned, in November 1977, to the FCC for the needed amendment of the rules. This petition was unopposed by any party. Nevertheless, it is still pending.

Mr. SKUBITZ. When did you submit that application for a change of the rules?

Mr. MAYER. In November of 1977, approximately 8 months ago—almost a normal gestation period.

Mr. SKUBITZ. Well, that is not very long for a bureaucrat.

Mr. MAYER. We have, after all of the publicity regarding the grain hauling and the comments by the committee, returned to the FCC last month, noting the urgent need for approval; and that request has not seemed to spur on the FCC at all.

Similarly we appear to have a problem coming, and since everybody else has picked on the Interstate Commerce Commission—albeit out of a well-intentioned concern with the problem of freight car allocation and use—the ICC is now considering an investigation with regard to automatic car identification systems. We believe this proceeding can only inhibit and delay the development and use by railroads of an effective system. The ICC will involve itself in a processing of enormous proportions and technical complexities which may well be beyond the expertise of the ICC to analyze and assess.

Ultimately, we believe the ICC will become embroiled in dealing with problems and issues involving day-to-day railroad operations and decisions which can be more expeditiously and efficiently resolved by the railroads in free and independent exercise of their business judgment. We believe the ICC should not be involving in mandating and imposing on the railroads the use of any specific system unless the railroads themselves determine that it is in their best interest to employ it.

Public interest and private interest need not be mutually exclusive. We believe the development of the SICARID system, in response to the needs of the railroads here and in Europe, is a classical example of the manner in which the two can exist. In these circumstances the role of Government should be to encourage and facilitate these efforts and create a climate in which they can act as quickly as possible to meet the problems confronting them.

As seen above, the present activities of the Government agencies have not created this environment. To the contrary, Government agency intervention imposes artificial restraints, restrictions, and inhibitions on private enterprise, and in this case on the private interest.

It is certainly not Siemens' position that the Government should abandon its regulatory processes and procedures. It would, however, urge that the responsible Government agencies be made aware by this subcommittee of the need for the most expeditious implementation of the regulatory procedures, thereby allowing private enterprise to move rapidly toward the resolution of problems affecting car allocations.

Thank you.

[Mr. Mayer's prepared statement follows:]

STATEMENT OF BERNARD MAYER, GROUP VICE PRESIDENT, SIEMENS CORP.

Mr. Chairman and members of the Subcommittee, I would like to thank you for the opportunity to appear and give testimony today on the question of freight car utilization and the national car shortage.

My name is Bernard Mayer. I am Group Vice President of Siemens Corporation, a subsidiary of Siemens AG, one of the five largest electrical manufacturing companies in the world, with sales of \$12 billion. Siemens' products are manufactured, distributed and sold in the United States and internationally in more than 120 countries. Siemens has a one hundred year history of developing and supplying equipment to railroads designed to improve efficiency and economy of service and management.

That a national freight car shortage exists cannot be doubted. It was forcefully brought to public attention by the recent critical unavailability of freight cars for grain hauling. Obviously, if it continues, the impact of the shortage will not be so narrowly defined. It will have a serious, adverse effect on the nation's entire industrial-agricultural complex and, thus, the general economy.

The freight car shortage arises from a multiplicity of complex circumstances. It would be simplistic and erroneous to focus upon any single, specific factor as the cause of the shortage. It would be equally simplistic and, moreover, unfair, and wasteful of time and effort to attempt to fix blame or fault for its existence upon any single company, organization, or industry. In fact, interested private parties—the railroads, shippers, and equipment suppliers—are fully cognizant of the seriousness of the freight car shortage and the acute need to deal with the problem. They should be encouraged to move aggressively to achieve its solution.

All parties concerned with efficient railroading in the United States will agree that a significant contributing factor to the freight car shortage has been an inability of the railroads to achieve efficient allocation of available cars. This entails the railroads having accurate and up-to-date data on cars loaded and in use and those which are empty and available for use. To obtain this information, however, requires that the railroads have a means to quickly and accurately identify and locate within freight yards empty cars and provide that data promptly for use by appropriate operating and management personnel.

The existence of the freight car shortage should not be taken as evidence that the railroads and their equipment suppliers have ignored the need for an effective car identification and location system. Quite to the contrary, for the past ten years, the railroads have been engaged in a multimillion dollar program involving the use of an automatic car identification system which they believed would provide them with this identification and location capability. Actual experience, however, indicates that this system, for a variety of reasons, does not adequately meet the operating needs and demands of the railroads.

The railroads have not abandoned their effort to obtain a viable car identification and location system. During the past decade significant advances have been made in electronic and computer technology. The railroads are, therefore, actively promoting research and competition among their suppliers to apply these advances in an innovative and imaginative manner to provide a car identification system which can satisfy their operating needs.

In response to the challenge posed by the railroads, Siemens developed a new, second-generation system called SICARID, which it believes fully meets the operating criteria and specifications which the railroads have established to assure satisfactory service under the extremes of operating conditions and environment to which a railroad car will be exposed.

I do not wish to burden the Subcommittee with a detailed technical description of the SICARID system's operating characteristics. I would, however, be more than happy to make such material available if the Subcommittee believes it would be of value in its deliberations. Simply put, SICARID is a highly advanced microwave system. It operates with extremely low power, well below minimum standards for emissions established by OSHA and other government agencies.

SICARID utilizes a transmitting device of a range which insures interference-free operation to other radio devices, even those in close proximity. The transmitting device, located between the railroad tracks, uses a very high radio frequency band which sweeps a passive transponder unit affixed to the underside of a freight car. The return signal provides digital information identifying the car, and this information is relayed from a trackside unit to a central location. The components of SICARID, brought together in the unified system, can and will provide railroads, automatically, accurately, and instantaneously—even under the most adverse conditions—with car identification information they need to efficiently and economically fulfill their service mission.

The SICARID system is capable of reading a 13 decimal digit identification number within a matter of 0.25 milliseconds. To get some appreciation of just how fast this is, it is equivalent to 4,000 car identification readings per second. This reading speed enables the system to reliably obtain identification information for freight cars and locomotives traveling at speeds of 125 m.p.h. or greater.

Moreover, Siemens' extensive testing of the SICARID system in the laboratory, the field, and under working conditions has conclusively established its accuracy and reliability even under the most adverse conditions that can be encountered in the railroad environment. Regardless of climate conditions, vibration, dirt, grime, or fungus growth, the system has a readability error factor that is infinitesimal: one undetected error in every 10 billion readings. Moreover, because of the characteristics designed into the system by Siemens, such as a self-correcting and problem-correcting capability, service and maintenance requirements for the railroads are held to an absolute minimum. The SICARID system has been approved, after extensive testing, by the International Union of Railroads in Paris.

From the foregoing, it can be seen that the SICARID system fulfills the, as yet unmet, needs of the railroads for an effective, accurate, and reliable car identification system, which is impervious to climate and railroad environment, with minimal maintenance requirements. Added to all of this, the SICARID system's transponder-label, the most critical component of any automatic car identification system, provides, minimally, the twenty year operating life span which is a primary criterion established by the railroads for any automatic car identification system.

With the SICARID system in operation, the railroads unquestionably would have available the car identification and location data so essential to efficient car allocation, the absence of which is a significant causal factor in today's car shortage. Siemens is prepared to immediately market the SICARID system and commence delivery within 9 to 12 months from the date of order. However, the marketing and delivery of the SICARID system is being held up by a factor beyond the control of either Siemens or the railroad industry.

Because of its use of radio frequencies, SICARID cannot be distributed until the Federal Communications Commission type accepts its equipment and issues a certification for its use. However, the technical concepts employed in the SICARID system are so advanced that they are far beyond the contemplation of the FCC's Rules and Regulations. Consequently, before Siemens can obtain type acceptance and certification, it must first ask the FCC to amend its Rules to specify and authorize electronic systems with SICARID's operating characteristics.

Recognizing the pressing need of the railroads for a viable automatic car identification system, Siemens, in November, 1977, petitioned the FCC for the needed amendment of its Rules. This petition was unopposed by any party. Nevertheless, it has been pending before the FCC, now, for eight months—unacted upon.

Following the publicity surrounding the shortage of freight cars for grain hauling and the cogent comments on that situation by the Chairman of this Subcommittee, Siemens returned to the FCC and, noting the even more urgent need of the railroads and the public they serve for a reliable automatic car identification system, urged the FCC to give its rulemaking request expedited consideration. That request has not spurred the FCC to take any action either.

Furthermore, favorable action by the FCC on Siemens' petition will not result in immediate amendment of its rules and the availability of the benefits of the SICARID system to the railroads. Unfortunately, the FCC's action will merely initiate a proceeding looking towards amendment of its Rules as requested by Siemens. Based upon the FCC's past track record, this proceeding could endure for an additional two or more years.

Thus, even if the railroads decided this very day that the SICARID system was the specific answer to their operating requirements and needs and was essential to their efforts to improve freight car allocation and use, they would be barred from utilizing that system until the FCC proceeding was concluded.

Similarly, the Interstate Commerce Commission, albeit out of a well-intentioned concern with the problem of freight car allocation and use, is now considering initiating an investigation with regard to automatic car identification systems. This proceeding can only inhibit and delay the development and use by railroads of an effective automatic car identification system.

The ICC will involve itself in a proceeding of enormous proportions and technical complexities, which may well be beyond the expertise of the ICC to analyze and assess. Ultimately and unavoidably, the ICC will become embroiled in dealing with problems and issues involving day-to-day railroad operations and decisions which can be more expeditiously and efficiently resolved by the railroads' free and independent exercise of their expertise and business judgment.

Further, any ICC investigation will act to inhibit, if not preclude, on-going and future initiatives by private enterprises, such as Siemens, to manufacture and distribute a viable automatic car identification system. It cannot be expected that Siemens, or other companies, will invest vast sums of money, time and effort in pursuit of a satisfactory automatic car identification system if they are aware that at the conclusion of the ICC's investigation the use of another system by the railroads may be required by regulatory fiat.

Thus, prudent business judgment would dictate diminution or termination of its research and development activities pending resolution of the ICC's proceeding, which, as in the case of the FCC, may last for several years. In any event, the ICC should not be involved in mandating and imposing on the railroads the use of any specific system unless the railroads themselves determine that it is in their best interests to employ it.

Public interest and private interest need not be mutually exclusive and antagonistic. Siemens' development of the SICARID system in response to the needs of the railroads is a classic example of the manner in which the two can merge and coexist. In these circumstances, the role of the government should be to encourage and facilitate their efforts and to create the climate in which they can act as quickly and as decisively as possible to meet the problem confronting them.

As seen above, at present the activity of the government has not created this environment. To the contrary, government agency intervention is imposing artificial restraints, restriction, and inhibition upon private enterprise and, thus, in this instance, on the public interest. It is certainly not Siemens' position that the government should abandon its regulatory processes and procedures. It would, however, urge that the responsible government agencies be made aware by this Subcommittee of the need for the most expeditious implementation of their regulatory procedures, thereby allowing private enterprise to move rapidly towards the resolution of problems affecting car allocation which is so essential to improving rail service to the public.

Mr. SKUBITZ. Thank you. No. 1, what does a SICARID stand for?

Mr. MAYER. Siemens Car Identification System.

Mr. SKUBITZ. Thank you. May I ask this: You mention on page 4 of your testimony that the Siemens system has been approved by the International Union of Railroads in Paris.

Mr. MAYER. That is correct.

Mr. SKUBITZ. Has there been sufficient experience in Europe with which your system has indicated any positive effect on car utilization?

Mr. MAYER. The system implementation has not been carried out to date. The problem is one of timing between the various countries involved.

Mr. SKUBITZ. It is in operation?

Mr. MAYER. The system is in operation on certain lines in Germany, but not on a European basis.

Mr. SKUBITZ. Not on a European basis. How long has it been in operation in Germany?

Mr. MAYER. The test phase, which is run both by the Siemens and also by the European research group, has been running in excess of 7 years. A system introduced in Hamburg, I believe, is about 6 to 8 months in operation.

Mr. SKUBITZ. In Hamburg.

Mr. MAYER. Yes, sir.

Mr. SKUBITZ. A person could see it in operation, then; is that correct?

Mr. MAYER. That is correct.

Mr. SKUBITZ. Well, if it is being used in Germany, why did the International Union on Railroads approve it; what did they have to base their opinion on?

Mr. MAYER. The system was evaluated as one of a number of competitive systems in an effort to standardize on a system to handle cars between all European countries. This system was selected as the most advanced and was tested by them and approved, so that when the implementation comes, it will be the SICARID system.

Mr. SKUBITZ. It was selected over others that are in operation, even in this country; is that correct?

Mr. MAYER. That is correct, sir.

Mr. SKUBITZ. It was a competitive program?

Mr. MAYER. It was a competitive evaluation.

Mr. SKUBITZ. What is the estimated cost of the transponder that you would attach to each one of the railroad cars?

Mr. MAYER. In quantity, we estimate about \$50.

Mr. SKUBITZ. Fifty. How would the transponder be powdered?

Mr. MAYER. There is a control unit on the side of the tracks which powers the track transmitter. The transponder receives its energy from the track unit. There is no power in the transponder.

Mr. SKUBITZ. How much servicing would the transponder require?

Mr. KOEHN. We do not expect any servicing.

Mr. SKUBITZ. Please, mention your name for the reporter.

Mr. KOEHN. My name is Knut Koehn, I am manager of Signal Systems of Siemens Corp.

We do not expect any servicing required over a 20-year lifetime period. That is due to the fact that the transponder is a fully casted wave guide with cavities on the side which do not contain any kind of electrical or electronic circuitry.

Mr. SKUBITZ. Could you tell me what the FCC docket number is, so if we wanted to we could make inquiry to find out what is going on down there?

Mr. FIRESTONE. Unfortunately, we have not even gotten to the docket stage. We are simply appending petition for rulemaking with rulemaking No. 2289. Our concern is that, based on the prior track record, when the Commission acts on our petition it will merely initiate the rulemaking, looking toward the ultimate amendment. There seems to be a gross lack of concern about the immediacy for approving this.

Now, I would like to make clear for the record, we are not asking the FCC for a specific approval of the SICARID system we are merely asking for an allocation of the frequencies that system uses and a rule which would permit generic operation of the system, any system with similar operating characteristics to the SICARID system. We feel that unless there is some external interest, it could be in the hands of the FCC possibly for as long as 2 or 3 years.

Mr. SKUBITZ. Does Siemens have an office in Hamburg, or in Munich?

Mr. KOEHN. Siemens has a number of offices all over Germany. Its headquarters would be in Munich. The Railroad Signal Department, however, is specifically located in Braunschweig, close to Hannover, Germany.

Mr. SKUBITZ. Did I understand you to say that you are running an experimental test out of Hamburg; is that correct?

Mr. KOEHN. Yes. It is not an experimental test; that is designed for cars, ore cars, that go into an iron work plant in order to control them, where they are.

Mr. MAYER. Now, I should add that this system, if utilized in the United States, will be produced here.

Mr. SKUBITZ. The cars that are being used with the transponder, do they operate between, say, Hamburg and Munich; or just what is the operation?

Mr. KOEHN. No; they operate between Hamburg and Saltzgitter—that is the location where the iron works are.

Mr. SKUBITZ. Saltzgitter?

Mr. KOEHN. Saltzgitter, correct.

Mr. SKUBITZ. Those are all the questions I have to ask, and I thank you gentlemen. Sorry to have kept you waiting so long.

Mr. MAYER. Thank you, Mr. Chairman, we appreciate it.

Mr. SKUBITZ. Wait just 1 minute. What is the cost of the signal device on the track?

Mr. KOEHN. The transmitter, including the processing unit, we estimate right now around \$40,000.

Mr. SKUBITZ. \$40,000. Per location?

Mr. KOEHN. Per location. The cost would increase if you had multiple-reading facilities at one location. However, there are certain limitations.

Mr. SKUBITZ. That is all, gentlemen; thank you ever so much.

Mr. MAYER. Thank you.

Mr. SKUBITZ. The meeting is adjourned.

[Whereupon, at 7:30 p.m., the subcommittee adjourned, to reconvene at 2 p.m., Wednesday, July 26, 1978.]

FREIGHT CAR SHORTAGE AND UTILIZATION

WEDNESDAY, JULY 26, 1978

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.

The subcommittee met at 2 p.m., pursuant to notice, in room 2323, Rayburn House Office Building, Hon. Fred B. Rooney, chairman, presiding.

Mr. ROONEY. Our first witness is my colleague, Congressman Grassley, who obviously is on the floor.

The hearing this afternoon will be interrupted by the bells and votes. I regret very much having to meet in the afternoons, but this is the only time we could schedule this because our full committee met this morning.

Our first witness will be the Honorable A. Daniel O'Neal, Chairman of the Interstate Commerce Commission.

Chairman O'Neal, welcome to the committee. I have been hearing a lot of you in the past 24 hours.

STATEMENT OF HON. A. DANIEL O'NEAL, CHAIRMAN, INTERSTATE COMMERCE COMMISSION, ACCOMPANIED BY JOEL BURNS, DIRECTOR, BUREAU OF OPERATIONS, AND JANICE M. ROSENAK, DEPUTY DIRECTOR, SECTION OF RATES, OFFICE OF PROCEEDINGS

Mr. O'NEAL. I am sure it was all good.

Thank you, Mr. Chairman.

With me on my left is Joel Burns, who is the Director of the Bureau of Operations. On my left is Jan Rosenak, who is the Deputy Director of the Section of Rates in the Commission.

I have a very short statement I would like to read and a longer statement which I would like to submit for the record.

Mr. ROONEY. Without objection, your statement will be made a part of the record, and you may summarize it.

Mr. O'NEAL. I will briefly discuss in this statement the causes of railcar shortages, and the Commission's efforts in dealing with those shortages.

There are several factors that go into and cause railcar shortages, and I am sure you have heard a number of those causes during the course of the hearing already. Market conditions certainly are a factor in the grain area, for example, this year, since not much grain was moved last year because the price was not good, substantial grain is moving; maybe twice as much in certain areas. In addition, exports of grain have become very strong this

year and that also adds to the general demand for cars. That demand has exceeded the carriers' capacity to provide cars.

In addition, of course, we had the unusually severe winter weather which interfered with the carriers' ability to move cars very rapidly, and the industry is still recovering from a drastic drop in car utilization that occurred as a result of the weather.

In the past the Commission has relied primarily on the issuance of car service orders to deal with car shortages and to improve car utilization. Recently our field staff has reported an alarming amount of noncompliance with service order No. 1309, which requires railroads generally to move cars within 24 hours for certain phases of their operation.

The Commission has taken a number of enforcement actions as a result of violations of that order.

We believe the car service orders have spread the available car supply more equitably.

The lawsuits which we have initiated for violations of the orders seem to be sparking a move toward voluntary compliance among other carriers. It is important to note here that the Commission will have an oral argument next Monday to hear arguments on service order 1309 as a result of a petition that has been received from the Southern Pacific.

With regard to other actions, the Commission has implemented changes in ratemaking procedures pursuant to the 4-R Act to improve car utilization. However, it is difficult to gage the potential effectiveness of these changes because the railroads have not used this new rate flexibility except for five occasions.

While one theory of ratemaking flexibility provided was to induce rails to increase or decrease rates to accomplish such objectives as reducing the seasonable impact on demand, so far the rails have used this flexibility only for increases except for one minor item. The rails, in short, have shown little interest in this area, and we are looking into the reasons for that.

Recently the Commission approved a series of suggestions developed by the Bureau of Operations for improving freight car utilization. For the long range, the Commission plans to initiate actions in several areas, including development of an improved data base, development of viable alternative to carrier operating practices and rate structures, and encouragement of joint rail-barge rates to move grain from interior points to river terminals for transfer to barge.

The Commission is also giving serious consideration to a number of specific short-range recommendations. They include such ideas as suspension of all general purpose freight car assignments to specific shippers and permitting them to be loaded by any shipper in any direction, and supporting a 10-percent tax credit for capital investment by railroads.

The Commission is also considering whether to increase basic car rental charges in the near future.

Both long-range and short-range proposals are discussed much more fully in the lengthy statement that has been submitted for the record.

Insofar as legislation is concerned, the Commission will also be reviewing the need for legislative changes. I am inclined to believe

that insofar as ICC authority is concerned, the present statutes are adequate. Some thought should perhaps be given to incentives for consolidation of facilities—perhaps for consolidation of rail facilities as well as facilities for agricultural shippers—and for yard modernization and possibly for a national car fleet.

If changes appear necessary in our statute as we work with our new programs, we will request legislation from the Congress.

That completes the summary statement. I would be happy to try to respond to any questions you might have at this time.

[Testimony resumes on p. 221.]

[Mr. O'Neal's prepared statement follows:]

STATEMENT OF A. DANIEL O'NEAL, CHAIRMAN, INTERSTATE COMMERCE COMMISSION

Mr. Chairman, Members of the Subcommittee: I would like to thank you for giving the Commission the opportunity to be here today to discuss the freight car shortage problem.

The car shortage problem has been with us for several months. Recently, the Commission has been examining closely the causes of this complex problem and attempting to develop innovative solutions. Before discussing recent Commission actions dealing with the car shortage, I would like to outline briefly a few of the elements contributing to the shortage.

Several factors causing the shortage relate to the market situation. For example, when grain prices are low, more grain will be held in country storage than normal. Eventually, though, farmers and country elevator operators either need funds or must reduce the amount of grain in storage to accommodate a new crop. Whatever the situation is that triggers a sale for one elevator operator is likely to trigger the sale for other operators at the same time. This causes the demand for cars to exceed quickly the carriers' ability to furnish them.

Another aspect of the market situation which has put a strain on the rail car supply is export grain sales. Despite the lack of major publicity, such as that which attended the Russian wheat sales several years ago, May 1978, produced the largest volume of export grain movements in the history of the country. The increase in export grain movements has resulted, almost immediately, in higher barge rates, which have the effect of diverting some barge traffic to rail. Of course, even without this diversion the total increase in volume grain movements would strain the rail car supply.

In addition to the market situation, unusually severe weather last winter further aggravated the general problem by interfering with carriers' ability to move cars promptly, causing a drastic drop in grain car utilization. Many carriers had an excessive number of cars on hand which they were unable to get placed, unloaded, and returned to the loading areas. The situation in the Midwest was particularly bad. For the first time in many years, the Illinois River froze, and the upper Mississippi Locks did not open until a month after the usual time. This meant that barge service was not available to move the bulk of the grain crop which was exported from the Gulf ports in May, and that the rail system was completely overwhelmed with demands for equipment. Although the effects of the severe winter weather are pretty much over now, the weather was a very significant contributing factor for several months.

I would now like to turn to a discussion of the techniques which the Commission has used to handle car shortages in the past.

Our primary tool has been the issuance of car-service orders, which are designed to improve car utilization and distribute available cars more equitably. As you are aware, service orders may be issued only after the Commission finds that an emergency exists. The Commission may issue whatever order or orders it deems necessary to alleviate the situation, without prior notice or hearings. Two such orders are Service Order Nos. 1309 and 1315.

The Commission's Service Order No. 1309 imposes operating standards on the railroads by requiring them to place for unloading, remove after loading or unloading, and move in transportation service, all rail cars on their lines within 24 hours.¹

¹ Service Order No. 1309 requires carriers generally to handle cars within 24 hours for certain phases of their operations. This time period has been used historically by the Commission in other movement type service orders. The Commission adopted a similar 24 hour timeframe in Ex Parte No. 284, *Investigation Into the Need for Defining Reasonable Dispatch (Perishable Commodities)*, 335 ICC 162. The regulations in this proceeding were adopted after a full hearing with participation by the rail industry.

Service Order No. 1315 established more stringent demurrage rules than are generally provided in carriers' tariffs. Those orders have been in effect for approximately four months. Our field staff is continuously monitoring the carriers' compliance with these service orders, and while there are locations that have been found to be in full compliance, the staff is reporting an alarming amount of noncompliance with Service Order No. 1309. The Commission is presently widely engaged in investigating alleged violations of this order. Several legal actions have been taken and others will probably follow.

For example, the Commission's Bureau of Investigations and Enforcement has instituted civil forfeiture and injunctive actions against ConRail for \$2.3 million, and injunctive action against top officials of the carrier for future violations of Service Order No. 1309. A similar action was instituted against the Southern Pacific Transportation Company just recently involving a civil forfeiture claim of \$4.4 million, and again injunctive action is being directed against the carrier's top officials. Earlier, a \$445,800 civil forfeiture claim was filed against the Atchison, Topeka and Santa Fe Railway. The Commission's field staff is actively engaged in conducting investigations of other alleged abuses of our service orders and if the violations are substantiated, additional enforcement actions may be expected.

The Commission has also scheduled oral argument for July 31, 1978, to consider the service impacts and operational feasibility of Service Order No. 1309.² Our Bureau of Operations feels strongly that the order has been an important step in minimizing the impact of the shortage, and that continued enforcement will help alleviate the shortage. Some of the carriers, on the other hand, seem to feel that the order is overly burdensome. So the Commission has decided that the best way to resolve the question is through an oral argument at which interested parties on both sides can present their views.

During regular review of carrier files, our field staff closely monitors other types of service orders which require carriers to desist from loading empty cars and to return them to their owners. We have found relatively good compliance with this type of order, and have received few complaints from the carriers about these orders.

It is difficult to assess precisely the effects of our car service orders. We believe they have spread around the available car supply more equitably, but possibly this has been achieved at the expense of overall rail industry productivity. To the extent carriers have complied with Service Order No. 1309, which imposes operating standards, car utilization apparently has been improved. It has come to our attention that the top management of a major carrier has recently instructed its employees to comply fully with Service Order No. 1309. Furthermore, the carrier has hired additional personnel to work on locomotive repair. We believe this is a reaction to the legal actions, mentioned above, which the Commission took to enforce this order. To the extent that carriers voluntarily comply with our orders seeking to improve car utilization, we believe the effects of car orders are beneficial. Of course, our orders alone probably cannot solve a car shortage—we must be content if we can at least help mitigate it.

Turning now to other actions, pursuant to section 212 of the 4-R Act, the Commission instituted a rulemaking, Ex Parte No. 334, *Car Service Compensation—Basic Per Diem Charges*, in order to revise the formula for the computation of basic per diem charges. The revised formula adopted by the full Commission was developed to more accurately represent the actual costs of ownership and improve car utilization. Because additional data is needed, these charges are scheduled to become effective in late 1979. Nevertheless, the Commission is presently considering whether the current serious rail car shortage justifies the immediate modification of per diem charges.

Our Bureau of Operations recently concluded nine informal conferences held around the country for the purpose of inquiring into the impact of the car shortage situation on shippers, and the problems encountered by the railroads in trying to provide service. The participants made some very good recommendations about long-term solutions to recurring car shortage problems. The Bureau of Operations issued a Highlight Statement covering the first five informal conferences and will prepare a second statement for the other four informal conferences. I have attached a copy of the first Highlight to this statement as Appendix 1, and will be glad to submit the second Highlight Statement to the Subcommittee when it is completed.

² Commissioner Murphy would also have stayed the effectiveness of the order insofar as petitioner Southern Pacific was concerned. In the alternative, he would have granted the carrier interim relief on perishables traffic and on movements of manufactured parts to assembly plants. Commissioners Gresham and Stafford would have stayed the effectiveness of the order pending oral argument.

In addition to these hearings, the Commission recently took a major step toward developing a new, more comprehensive approach to the car shortage problem. The Commission^{*} approved suggestions for improving freight car utilization developed by the Bureau of Operations. The basic principle underlying this program is a renewed commitment by the Commission to leading the way in finding solutions to the current and future transportation problems of inadequate freight car utilization and freight car and locomotive supply. In long-range terms, the Commission is planning to institute five major actions:

- (1) Development and promulgation of measurable operating standards. This would include consideration of reciprocal or reverse demurrage and penalty per diem.
- (2) Development of an improved freight car utilization data base consisting of uniform record keeping and reporting procedures, and development of market research and forecasting criteria. We are also examining the possibility of developing an econometric model to forecast car service demand.
- (3) Development of viable alternatives to carrier operating practices and rate structures such as substitution of motor for rail service, allowing multiple car rates to be used on single car shipments, and investigations of the impact on grain inspection proceedings on freight car utilization.
- (4) Development and encouragement of joint railbarge rates to move grain from interior points to river terminals for transfer to barges. This would reduce the distance to be covered by rail and thus make more grain covered hoppers available for other shippers.
- (5) Determination of the need for development of legislative changes, especially in the areas of a need for a national standby rail car fleet and for a requirement that carriers purchase locomotives and freight cars.

In addition to initiating proceedings in these general areas, the Commission is also giving serious consideration to a number of specific short-range recommendations developed by the Bureau of Operations. The short-range recommendations which are currently before the Commission include:

Support of a request by the Transportation Association of America for establishment of a permanent ten percent tax credit for capital investment by railroads;

Directing railroads whose bad car order ratios exceed five percent in any of the shortage types, to begin immediately repairing all cars less than thirty-five years old;

Continued strict enforcement of Service Order Nos. 1309 and 1315;

Discontinuance of all unit grain trains until small shippers can obtain cars to fulfill their outstanding contracts and make room for this year's harvest;

Establishment of a "frequency schedule," which would prohibit carriers from annulling any train where at least twenty-five cars are ready for movement against the schedule;

Suspension of (1) mandatory service Rule Nos. 1 and 2; (2) all exclusion type service decisions requiring the empty return of certain types of freight cars to their owners; and (3) AAR's Car Service Directives that require freight cars to move empty;

Elimination or modification of AAR's Car Hire Rule No. 22 on per diem reclaim;

Suspension of all freight car assignments to specific shippers. This would permit them to be loaded by any shipper in any direction.

We believe that the use of some of these short-term recommendations could help mitigate the immediate car shortage problems, and that the long-range programs, when put into effect, will help prevent a reoccurrence of these short-term problems.

As mentioned, one aspect of our long-range plans involves the determination of the need for and development of legislative changes. I believe that the present statutes are very comprehensive and that the Commission must reexamine past policies and decisions to determine if we placed any artificial limits on interpreting these statutes. As we set a course for overcoming car shortage problems, it will be necessary to analyze whether our proposed actions are attainable under the present body of law. I am inclined to believe that the present laws provide a vehicle for the Commission to obtain better car utilization. However, if it becomes necessary, the Commission will request legislation from the Congress.

Although I am hesitant to endorse any legislative changes at this time, I might suggest one idea that could be examined. This would involve some sort of an incentive program, perhaps through taxes, which would encourage the relocation of

^{*} Vice Chairman Christian and Commissioner Gresham, while supporting the general thrust of this program, dissent from the following specific recommendations: ordering repairs on boxcars less than 35 years old when bad orders exceed 5%; requiring discontinuance of unit trains to accommodate small shippers; ordering railroads to purchase cars or locomotives to fulfill peak period demand, and allowing reciprocal demurrage and penalty per diem. Commissioner Clapp also opposes the temporary discontinuance of all unit trains.

small grain elevators onto rail main lines and their consolidation into large enough facilities to enable them to use unit-train service effectively. It is suggested because while we recognize the need in this crisis to aid the small country elevator and the farmers served, we also recognize that such assistance will probably result in less effective use of the more efficient unit trains. Thus giving some relief to the small guy in this crisis may, indeed, exacerbate the overall problem. That is why we try to be very judicious in providing such relief. This situation suggests that consolidation of country elevator facilities could pay huge dividends in efficiency for the future. The Commission has not really evaluated all the possible ramifications of such a program, and I offer the idea to you as only that—an idea. Much thought, particularly along the lines of socio-economic considerations, should probably be given to this idea before it becomes official government policy.

In addition to the car service orders and hearings, the Commission has implemented changes in ratemaking procedures pursuant to the 4-R Act. These procedures are designed to provide an incentive to shippers to reduce peak-period shipments by rescheduling; to generate additional revenues for railroads; and to improve utilization of freight cars, movements, employment, and the financial stability of markets served by railroads.

I believe that peak-period ratemaking can play a positive role in reducing the car shortage problem. However, the Commission has not received a significant number of peak-period rate filings. Therefore, it is difficult to gauge the potential effectiveness of this concept.

The Commission has been exploring the apparent lack of interest on the part of the railroads in using peak-period pricing. In interviews with our Office of Proceedings last year, representatives of rail and shipper interests suggested that one reason for this non-participation was that carriers feared to file new rates unless other carriers in their region did so as well. They thought that without close cooperation on a regional basis, carriers who participated in peak-period pricing would be put at a substantial competitive disadvantage in their product markets, as business would go to the carrier with the lowest single-level rate. This problem of course would not arise with regard to proposals to reduce rates.

The Commission favors increased use of peak-period pricing. We had hoped, however, that any proposed peak-period increases would be accompanied by reduced rates for off-peak movements. To date, this has not been the case. In mid-1977, when the Southern Freight Association proposed a 20-percent peak-period premium on grain originating in the Southern Territory from mid-September to mid-December 1977, the Commission declined to suspend or investigate this first major proposal under the new statute. However, the United States Court of Appeals for the Eighth Circuit held that the Commission had abused its discretion by failing to institute a formal section 15(8) investigation of alleged section 4 violations. Our petition for rehearing was denied recently, and the Commission is currently determining whether to seek a writ of certiorari to the Supreme Court. The Commission is concerned that if it is forced to investigate every novel rate proposal, this will have a chilling effect on innovative rail ratemaking and greatly impair the flexibility of rate-making under the 4-R Act.

A number of other factors may also be contributing to the limited effectiveness of peak-period pricing. For example, the grain market price structure is marked by unpredictable fluctuations which intensely affect transportation demand. This uncertainty is a primary motivating force in a producer's decision on whether to sell his crop or store it until some future time. Thus, the spread between peak and off-peak rate levels must provide enough incentive to move grain in periods when its market price alone would not encourage movement. It must also outweigh the credit costs and additional costs of storage imposed when the receipt of revenue from grain sales is delayed from a peak to an off-peak period.

On the other hand, peak-period rate increases must be set low enough so that serious diversion to other modes is not created. Some railroads believe that shippers will prefer truck or barge transportation if rail rates are set too high. They feel that higher rail prices will cause many more motor carriers to enter the market, eating into rail revenues in both peak and off-peak periods. If this is the case, peak-period pricing could be counterproductive.

We at the Commission think that the railroads have not used peak-period pricing in a way to solve the problems which it was originally designed to address, such as a need for a market-responsive rate-setting mechanism. For example, railroads have been using peak-period pricing only to increase rates, in the same way that across-the-board increases have been used in the past. As the railroads have used this mechanism only to get increases, they are not utilizing its potential for maximizing revenues and improving service through efficient, innovative management. As we

recently have reminded the carriers in our decisions in the last several general increase proceedings, improved service is imperative to avoid serious questions of economical and efficient management under section 15a(4) of the Act.

The Commission is also looking into the possibilities and requirements for implementing a common ownership concept similar to that used for trailer trains, to covered hopper cars and gondolas.

Trailer Train Co. and a subsidiary, American Rail Box Car Co. have both been relatively successful endeavors by the railroad industry to establish separate entities for the purpose of building and placing in free-running service various types of flat cars and 50-foot boxcars. It is one method which places rail cars in service with the control remaining within the railroad industry. Rail Box's success has been outstanding. About 90 percent of its total car miles are loaded miles, car hire costs are substantially less than for comparable railroad owned cars (daily car hire of \$11.58 v. \$18.14; average cost per loaded mile—21¢ v. 41¢), and the equipment is maintained in excellent condition. It may be, however, that a part of its success is related to its small size.

As mentioned, the senior staff has been directed to examine the general topic of railroad freight car shortages to determine what is necessary to alleviate the recurring problems. As part of the study, the staff had been asked to take into consideration what effect a greatly expanded Rail Box ownership of cars would have on freight car utilization. This could be expanded to include all types of equipment, including covered hopper cars and gondolas. At the present ownership level, Rail Box cars have very limited empty mileage, and the question is whether a much larger fleet would retain the same favorable loaded-empty mileage ratios, as the cars are used to haul less attractive traffic and directed to remote areas to meet loading demands. The study could indicate that a larger Rail Box fleet will continue to show a reduced empty mileage record under that of the individually carrier owned cars. The Commission wishes to encourage the railroad industry to pursue a path of retaining control of the railroad freight car fleet, and the Rail Box ownership concept may be the best way to satisfy that end.

This concludes my prepared statement. I will be glad to respond to any questions you may have.

Attachment (Appendix 1).

APPENDIX 1—HIGHLIGHT STATEMENT, BUREAU OF OPERATIONS, INFORMAL CONFERENCES

Preface

At the direction of Chairman Daniel O'Neal, the Bureau of Operations conducted a series of open informal conferences to explore the severe and persistent freight car shortages. The demand for freight cars of all types beyond the available supply started in late 1977. It continued to accelerate in early 1978 and is expected to continue through the balance of the year.

The informal conferences were designed to attract a diverse audience so that the discussions would include various points of view. The conferences were informal in nature because we were seeking an open dialogue where any person could participate without concern that the comments formalized his/her position. As a substitute for a transcript, a Commission stenographer made notes of each meeting. These notes will serve as an informal record of the general substance that was discussed in the meetings, which were held at Washington, D.C., on March 30 and 31, 1978; at Des Moines, Iowa, on April 3, 1978; at Omaha, Nebr., on April 4, 1978; and at Salina, Kans., on April 5, 1978.

Objectives of Informal Conferences

The objectives of the informal conferences were twofold; first, what additional short ranged actions could be taken to alleviate the rail car shortages and second, an analysis of the information obtained for the purpose of making Bureau recommendations to resolve freight car shortages in the long term.

As a result of the informal conferences, several short-ranged actions were taken. They included the following:

1. On April 5, 1978, General Temporary Order No. 12 was issued permitting truckers to apply to the Commission's field office for immediate emergency temporary authority to haul badly needed fertilizer.
2. Service Order No. 1319 was issued on April 8, 1978, requiring that the railroads return Seaboard Coast Line jumbo covered hopper cars to the owner because of an immediate need to load fertilizer for movement to the farm areas.
3. The issuance of Service Order No. 1322 which required certain railroads to distribute a certain percentage of their covered hopper cars to country elevators.

The information obtained at the informal conferences that have been held and those that will follow will be analyzed by the Bureau to determine what recommendations should be made to the Commission for actions directed toward longer range solutions to the problems.

Information Developed at Informal Conferences

The informal conference discussions were directed toward a number of commodity groups including grain, fertilizer, scrap iron and steel, cotton, lumber, and paper. The most discussion involved shortages of cars for grain shipments. However, the equipment shortages and unique shipping conditions of the other commodity groups are recognized as requiring equal consideration for both short and long term solutions.

Programs by ICC and AAR

The various actions taken by the Commission were explained in the meetings including Service Order No. 1296 which authorizes The Atchison, Topeka and Santa Fe Railway Company to substitute two refrigerator cars for each boxcar ordered for cotton loading; Service Order No. 1304 which limits the number of jumbo covered hopper cars that can be used in unit train service to 20 percent of ownership; Service Order No. 1305 which authorizes the substitution of two refrigerator cars for each boxcar ordered on the Union Pacific Railroad; Service Order No. 1306 which requires the return of 50-ft. plain boxcars empty to the Chicago and North Western Transportation Co.; Service Order No. 1309 which imposes 24-hour service levels on railroads for placement, removal, and movement of freight cars; and Service Order No. 1313 which authorizes the tendering of less than the number of cars required by tariff for multiple car shipments. The Commission's special efforts in the Northeast were described. These efforts involved 35 staff members working with carriers and shippers to expedite the movement of freight cars. The Association of American Railroads commented on their various efforts to improve freight car utilization, including Car Service Directive No. 435 which requires the return of covered hopper cars to the owning railroad and the dedication of its entire car service staff, consisting of approximately 50 employees, to check on-the-ground delays of freight cars by railroads, shippers, and receivers. The Commission's Exceptions to Mandatory Car Service Rules 1 and 2 which allowed railroads to load 50-ft. boxcars of certain other carriers without regard to the destination were explained. The AAR also commented on Exclusion Orders that were issued for the cars of certain carriers in order to expedite the return of cars empty to the owning lines.

Reasons Offered for the Freight Car Shortages

The discussions did not result in specifically pinpointing the exact causes for the present freight car shortages. However, there were a number of reasons offered which contribute to the present crisis. The reasons include:

1. The severe winter weather conditions including blizzards throughout the northern tier of the United States interrupted railroad operations and caused poor freight car utilization.
2. Insufficient railroad locomotives to move the trains in road-haul service which contributed to poor car utilization. An adjunct of this cause was the prolonged coal strike in the East which required the use of western railroad locomotives to move coal longer distances to eastern destinations.
3. Impact of a prolonged car builders strike which prevented at least 2,000 covered hopper cars and other types of cars from being added to the fleet by this time.
4. Poor maintenance of the railroads' car fleet.
5. A general deterioration of railroad service contributing to poor freight car utilization through inferior train operations.
6. A cutback in operations by the railroads on weekends and the Christmas/New Year's holiday periods.
7. Deterioration and scrapping of freight equipment for cotton, scrap iron and steel, and other commodities to an insufficient level for handling the traffic tendered for transportation.
8. The price of grain increased causing an immediate demand for rail cars to handle the grain which was placed in storage last year because of low prices.
9. The falling value of the American dollar provided foreign grain buyers an incentive to increase purchases.
10. Possible inefficient use of jumbo covered hoppers in short line-haul or cross-town switch service.
11. Insufficient purchase of railroad equipment needed by carriers to keep pace with the increasing grain production, thereby causing car shortages even though only marginal increased business activity occurred.

12. Increased farm and country elevator storage facilities permitting larger grain hold-back capacity and increased volume for shipment as market conditions change.

13. Export grain prices of U.S. grain below that of other countries, coupled with foreign crop failures, resulting in an increase demand for American grain.

Summary of Comments by Railroads

Spokesmen for the individual railroads that attended the meeting commented on the equipment acquisitions that their companies have made in the past several years and their plans for 1978. While specific equipment purchase statistics were not made available, several hundred locomotives are on order or being delivered along with several thousand covered hopper cars and other types of equipment. It was pointed out that since 1972, 55,000 covered hopper cars have been added to the fleet by the railroads and the car leasing industry. At the same time approximately 80,000 40-ft. boxcars have been retired from service. On balance, however, the covered hoppers provided greater tonnage capacity than the boxcars removed from the fleet. One carrier official commented that the 40-ft. boxcar fleet is mostly old and as the cars become bad ordered they are retired because of the expense that would be involved in extensive repairs.

Comments by the railroad participants contended that the transportation system cannot be expected to handle grain car without shortages when the shippers hold grain off the market until favorable economic conditions trigger a selling surge. The carriers generally expressed the view that the railroads cannot be expected to gear their equipment purchases to the peak demands of grain shippers and then have those cars sit idle during slack periods.

The railroad representatives said that the severe winter substantially hampered their operations. Locomotives downtime was a serious problem to many carriers. The eastern portion of the country was especially affected by winter storms causing rail cars to back up on many railroads. A spokesman for ConRail said the carrier was hit hard by the winter storms and because of a poor cash position, it was difficult to overcome the problem. Attempts were made to expedite cars including using the carrier's Sales staff. Efforts were also made to operate the repair shop to full capacity. The weather in North Dakota, South Dakota, Wyoming, Minnesota, and Illinois was described to be extremely severe with temperatures falling as low as 35° below zero. The Burlington Northern estimated the cost of snow removal in North Dakota alone to be in excess of three million dollars.

As the winter conditions eased, the Midwestern carriers said that the cars began to flow back from the East in increased numbers.

The railroads indicated that strikes within the railroad car building industry resulted in fewer new cars being delivered on schedule. It was estimated that if Pullman Standard had been in full production there would be an extra 2,000 covered hoppers in the fleet by the time of the informal conferences.

Railroads and Shippers' Views Concerning Areas for Improved Utilization

Beyond the adverse impact of such influences as poor weather conditions, power failure and shortages, and the delayed delivery of new equipment, the railroads suggested that there was a need for improving freight car utilization by shipper and receivers. For example, the carriers generally suggested that shippers have to load and unload cars faster; that some method should be devised to eliminate jumbo covered hopper cars from being used in cross-town switching; and that free time should be reduced in the application of demurrage. In respect to grain, the carriers suggested that the free time allowed for the inspection of grain should be eliminated.

Shipper participants were generally of a different view. Expressions were offered that the railroad industry as a whole is not geared to handle the upturn of traffic because: (1) the carriers have not purchased sufficient number of locomotives and freight cars; (2) the carriers have not provided sufficient attention to upgrading terminals and track; (3) the carriers have not provided adequate maintenance of the car fleet to reduce bad order ratios; (4) the carriers have allowed freight car utilization to deteriorate to an unacceptable level; and (5) there should be some curb on railroads investing in other ventures wherever such practices are occurring.

The shippers were strongly opposed to suggestions of reduced free time for loading and unloading cars. They suggested that delays to cars on sidings were the result of carriers failing to timely remove them from a shipper's place of business for extended periods of time. A suggestion was offered that it would be better to have reverse demurrage to penalize carriers which fail to remove cars from sidings rather than to decrease free time and increase demurrage rates.

SUMMARY OF COMMENTS BY COMMODITY GROUP PARTICIPANTS

Grain

The feeling that prevailed throughout the meetings by the participants interested in grain was that the demand for rail equipment to ship grain would continue unabated into calendar year 1979. The prospects of a car shortage over this extended period, coupled with the resulting revenue loss by shippers that are unable to move the grain, was expressed as an extreme concern by the participants. The fear was also expressed that the car shortage problem could grow even worse in the long term. For example, it was pointed out that wheat production has increased by approximately 80 percent in the past five years and that foreign purchase will continue to increase. It was pointed out that the transportation system must keep pace with the traffic demands if producers are to have fair marketing opportunities.

Repeated comments were made of the discounts and penalties that were assessed by the buyers when shippers fail to meet the shipping deadlines in the purchase contracts. Buyers pointed out that the penalties did not reflect increased profit to them but were used to defray higher prices paid to shippers who could deliver grain when the initial shipper defaulted. In effect, from both the shipper and buyer's prospective, the commercial problem was linked directly to the unavailability of freight cars.

Grain is transported under trainload, multiple car, and single car rates. The participants in the meeting understandably were parochial in their views as to how the freight cars should be divided among the various classes of shippers. One thing that all classes of shippers did agree on, however, was the frustration of not knowing when the railroads would fill car orders; where they stood on the list to get cars; and, whether everyone was sharing equally the hardships of the car shortages. The shipper participants looked to the carriers in the discussion to explain the present railroad transportation problems.

Unit Train, Multiple Car and Single Car Shipments

The informal conferences provided a forum for the shippers of unit trains and the single car shippers to voice their views concerning the distribution of available freight cars by the railroads. In this connection, the Interstate Commerce Commission's Service Order No. 1304, issued February 24, 1978, was a frequently mentioned item. Service Order No. 1304 provides that the carriers use no more than twenty percent (20%) of their ownership of jumbo covered hopper cars in unit train grain service. Unit trains are defined as requiring the use of twenty-five or more cars. Jumbo covered hoppers are described as those having a capacity of 4,000 cubic feet or more.

The large shipper participants viewed the 20 percent figure as being too restrictive against unit train traffic. Generally, this group pointed out that there is a tremendous amount of grain to move from storage before a new crop is harvested this year and that unit trains provide the most efficient means of moving that grain. As of late March 1978, it was estimated that there was 2½ million tons of ship space in Texas ports waiting to be loaded. The comment was offered that Service Order No. 1304 interferes with efficient unit train operation by diverting cars into the less efficient single car service. This they contended results in the transportation of a lower volume of grain and less revenue to the railroads. One spokesman said that his company's figures showed that in 1977 unit trains moved 7,141 ton miles per car per day, while single cars moved 1,095 ton miles per car per day. The per car per day carrier revenue was said to be \$79.72 versus \$50.68 in favor of the unit train. The participants supporting the unit train as the principal means of moving grain commented on their investment in facilities to load grain in unit trains as well as purchasing and/or leasing their own rail cars. The curtailment of railroad owned cars to 20 percent by Service Order No. 1304 was viewed as being inequitable because these shippers have equipped themselves to move large volumes of grain on a continuing basis rather than during limited periods of time.

Shippers of grain in other than unit train lots think differently from both efficiency and equity standpoints. This group doubted that unit trains improved turnaround time or facilitated higher carrier revenue when you consider the time it takes to assemble the cars; the priority attention such trains are given, resulting in the delayed movement of other cars; and, the special handling given the unit train at the unloading point in preference to other cars. Disbanding the grain train program, one group spokesman said would release cars for equitable distribution to all shippers and result in a smoother flow of grain to market. Other small shipper participants suggested that unit trains be limited so that the country elevators could get a higher percentage of cars needed to reduce inventories.

The financial crisis or adverse economic impact was stressed by smaller shipper attendees, including comments that the survival of the small country elevator was at stake. Examples that were offered involved country elevators being restricted by banks from making further payments to farmers for grain until rail cars were supplied and shipments tendered for transportation.

The informal conferences were replete with comments of penalties tied directly to the shortage of freight cars to move the grain. The financial procedures in the grain market were explained as including a per bushel penalty if an agreed shipment date is missed by the seller. The imposition of a penalty can vary over a wide range, but generally ranges from five to ten cents per bushel. The country elevator representatives said that the penalties remove the profit from the sales. Moreover, both large and small shippers commented that funds are borrowed to purchase inventories and when shipments are not made, interest charges continue to run against the loans causing substantial financial losses.

Car Distribution Practices of Carriers

Large and small shippers expressed concern of not having sufficient cars to move grain. At least one large shipper discussed being behind by fifteen trains as of late March 1978, and some other comments were made that indicated a shipper has been waiting since last December for a unit of 100 cars.

The frustration of not knowing when cars would be available was apparent in all categories of shippers. Smaller shippers, however, repeatedly told of getting only a token number of cars against the number that were ordered. It was these shippers who were most inquisitive concerning the distribution practices of rail cars by carriers.

The railroads responded to numerous questions on car distribution and there was some variance by individual carriers. Generally, the carriers said that the oldest car orders are filled first, based on the capability of the elevator to load within an area that is reasonable to serve at a given time. For example, a carrier having a stated number of empty cars generally will distribute the cars in line with the local train service schedule at the particular time. It was explained that if there were three local branch lines, one branch line may benefit by receiving all the available cars one day with the second and third branch lines benefiting on subsequent days.

The Burlington Northern's representative explained that the BN classifies its elevators as A through F. Elevators classified A ship more than 500 cars annually whereas those classified F ship less than 100 cars per year. Elevators rated B, C, D, and E ship more than 400, 300, 200, and 100 cars respectively per year. Certain shippers expressed concern that they are locked into a classification due to their orders not being filled because of car shortages. The Burlington Northern cancels all car orders at the end of each week and reestablishes new orders in an effort to eliminate inflated orders. Other carriers have different indicators which relate to shippers capacity to load and identify inflated car orders but the explanation on the BN's system was the most sophisticated.

Car distribution was generally described as not including any hard and fast rules because of the variables that enter into operational circumstances. The carriers generally allude to their obligation as common carriers to accept car orders even though the requesting shipper previously used alternate means of transportation. While there are some car ordering and distribution principles followed by all railroads, each carrier has its own policies and procedures in this area. The variations in each carrier's policies and procedures complicate the task of determining equitable handling of orders and distribution of cars by comparing one carrier with another. In short, there is no industrywide uniformity in car ordering and distribution practices.

Some ideas that the participants offered to improve rail service include the following:

1. Maintenance of a sequential listing of car orders so that inquiring shippers can be advised where they stand on the list.
2. Establishment of an industrywide car distribution system that limits or excludes orders for cars from shippers who only ship by rail during car shortage periods.
3. Exploration of the possibility of providing additional gathering trains, which would allow a number of shippers in close proximity to load a number of cars supplied by a railroad and then have those cars aggregated into a solid train for expedited movement to a common destination. Such exploration would also take into consideration any possible anti-trust implications caused by shippers binding together to market their grain.
4. Development by the Commission and Department of Transportation of mechanisms that would forecast emerging demands for rail equipment. Associated with

this suggestion was that the Federal Railway Administration should expedite loan applications by rail carriers for plant improvement and that a joint effort should be made by the Commission and the Department of Agriculture to stabilize grain marketing practices so as to prevent erratic transportation cycles.

5. Determination as to whether large shippers, other than those utilizing unit trains destined for the ports, can comply with the tariff provisions covering train-load shipments. If not, what is the impact on the single car shippers when cars are used in such unwarranted service.

6. Initiation of a competitive export rate structure for single car shipments from points in the Midwest to West Coast ports.

7. Consideration of: (1) an apparent need for common ownership of covered hoppers similar to Trailer Train; (2) an increase in the mileage allowance by railroads for private cars; (3) imposition of a scale of (seasonal) rates depending on the time of the year shipments are made; and, (4) a means to discourage the movement of grain during fertilizer shipping season.

8. Installation of additional investment tax credit for the purchase of covered hoppers by railroads and private car lines.

9. Consideration of a study of per diem levels that one railroad pays another for use of rail cars aimed at raising those rates to a point that it would encourage debtor carriers to purchase more cars.

10. Authorization of the use of federal funds to construct covered hoppers and repair the existing fleet.

11. Increased substitution of truck for rail service from country elevators to terminals and terminals to domestic mills in order to conserve rail equipment for longer hauls.

Other Types of Traffic

The preceding explanation about car ordering practices and car building and ownership matters has across-the-board application for all commodity groupings.

Fertilizer

Spokesmen for the fertilizer industry related an immediate critical need for covered hoppers in the Florida area for loading fertilizer. An explanation was given that fertilizer had to be available to the farmers in the early spring. Part of the cause for the equipment shortage was that the Seaboard Coast Line Railroad's covered hoppers were not being returned promptly to the carrier. The fertilizer industry believed an emergency Service Order was necessary to require other railroads to return the SCL's jumbo covered hoppers. Service Order No. 1319 was issued on April 8, 1978, requiring the return of the SCL's covered hoppers to that line empty. In respect to substitute motor service, a General Temporary Authority Order No. 12 was entered on April 5, 1978, providing an expedited method for truckers to obtain temporary authority to transport fertilizer.

Scrap Iron and Steel

Brief comments were offered on Commission actions in respect to the gondola cars including the authorization of multiple car shipments to move with fewer than tariff required number of cars. Additionally, gondola cars were added to Service Order No. 1309 requiring carriers to promptly place, remove, and forward the cars in transportation service.

Spokesmen for the scrap iron and steel industry detailed the problems faced by the shippers. The problems included a decreasing number of gondola cars in the railroad fleet leading to very severe car shortages. It was also explained that the gondola fleet is old, which increases the bad order ratio of the equipment. Comments were made that rough handling of cars occurs but that shippers are cautioned regularly against such abuse. It was pointed out that shippers frequently must repair cars at their own expense before loading can take place.

Incentive Per Diem was viewed as possibly being the long run solution, although the railroads expressed mixed reaction as to the merit of incentive per diem on gondola cars. It was explained that severe winter conditions had the same adverse affect on gondola cars as all other types of equipment.

Cotton

Cotton representatives commented that the industry has a record crop to transport in 1978, but the unavailability of boxcars is greatly hampering the movement. One spokesman said that the industry is geared to using 40-ft. boxcars from both operating practices and rate structure. He said that while they want 40-ft. boxcars, cotton shippers are willing to use refrigerator cars and other types of equipment including truck substitution to the extent it is feasible. The cotton industry suggest-

ed that if the current trend of car shortages continue, it will be unable to market the 1978 crop. It asked that the Commission conduct a broad investigation into the car shortage and rectify inefficiencies.

A representative of the Illinois Central Gulf commented that the number of 40-ft. boxcars was decreasing industrywide because of the flexibility of the 50-ft. cars. It was also pointed out that a fairly substantial number of 40-ft. cars are in disrepair and there is little incentive to invest funds in a rebuilding program. Mandatory Car Service Rules 1 and 2, which require that cars must move toward the owning line were discussed. Some participants favored the relaxation of such rules as a means to improve 40-ft. car supply in certain cotton loading areas and other participants saw it as a disadvantage in that it would retard the flow of cars back to their owners.

Paper and Lumber

Representatives of both the paper and lumber industries offered comments on the acute shortages of plain boxcars beginning in early 1978. As to paper, it was pointed out that the traffic moves at a steady flow without seasonal peaks.

Conclusion

These informal conferences brought together the railroads, shippers, merchandisers, government agencies, and any interested members of the public who wanted to participate in a discussion concerning railroad freight car shortages. Besides the short range actions already taken through Service Orders and longer range activities that can be planned as a result of the valuable information obtained in the sessions, there were other benefits. The conferences provided a forum for the participants to comment, question, and listen to the problems of others. The informal conferences served to open communications on a group participation basis. This type of information leads to a greater understanding of the problems even if it doesn't change the views of the individual participants. The Bureau anticipates using the informal conference concept in the future.

Mr. ROONEY. How about the gondola car shortage in this country? I understand that there is a serious problem as far as the steel companies are concerned.

What are you doing to improve that situation?

Mr. O'NEAL. Well, the gondola car situation has been bad. The situation has been corrected substantially in the last several weeks, so it is not as bad as it once was. But we have had a number of car service orders apply directly to gondola cars and we think this has had an effect in improving the utilization of the cars and making sure the cars get to the place where they are needed.

Mr. ROONEY. Are you increasing their per diem rate?

Mr. O'NEAL. We have a proceeding underway which, if it is approved, would increase the incentive per diem for gondolas. That proceeding represented an effort by the Commission several months ago to develop a formula for increasing per diem that was not based on a current shortage.

At the time the Commission first took this up there was no shortage. We relied upon an econometric model and developed a rate or rationalization for increasing or imposing IPD. Just before the Commission came out with the decision, the econometric model results changed, and since that was the rationale for the decision, we had to go back to the drawing boards.

Subsequently, we have taken the thing up again, and a decision will be made within the next 3 to 4 weeks.

Mr. ROONEY. I am going to read you a quote from Mr. Dempsey's testimony yesterday. I don't know if you have read his testimony?

Mr. O'NEAL. I am aware of it; I have not read it.

Mr. ROONEY [reading]:

Develop and promulgate reasonable standards and procedures for the establishment of revenue levels adequate under honest economic and efficient management to cover the total operating expenses plus a fair, reasonable and economic profit or

return on capital employed in the business. Such revenue levels should provide a flow of net income plus depreciation adequate to support prudent capital outlays, assure the repayment of a reasonable level of debt, permit the raising of needed equity capital and cover the effects of inflation and insure retention of the retraction of capital in the amounts adequate to provide a sound transportation system in the United States. The Commission shall make an adequate and continuing effort to assist such carriers obtaining such revenue levels.

In the last 12 months, the railroads earned the lowest level of revenue for any similar period in their history, and I would like to know what the Commission is doing to carry out the will of the Congress as we expressed in section 205. How much profit or return on investment would you allow to designate?

Mr. O'NEAL. The Commission has developed procedures pursuant to a rulemaking for determining the adequate revenue need, and on an annual basis will review the submissions of the carriers and determine what adequate revenue would be.

The carriers, as I understand it, have proposed a 12-percent return, and we are in the stage right now of determining whether that is appropriate or not.

Mr. ROONEY. What is the average rate of return for the trucking industry regulated by the ICC?

Mr. O'NEAL. It is determined on a different basis. It is return on equity basically, and I think return on equity in the trucking industry is about 20 percent or so for the profitable carriers.

Mr. ROONEY. What about the barges?

Mr. O'NEAL. Barges are, I think, around 14 percent. Now, I am not sure of that.

Mr. ROONEY. Last year didn't the railroads have a rate of return between 1.1 and 1.2 percent?

Mr. O'NEAL. Railroads are based on return on investment, which is different. I am not sure what it is. It is low. It is around 1 percent.

Mr. ROONEY. I think, Mr. Chairman, that the future of the railroad lies in the hands of the ICC. We have an unbalanced transportation system, the ICC must make some decisions that are going to be helpful for the whole transportation system in this country.

Mr. O'NEAL. I would like to address that. The Interstate Commerce Commission has granted rate increases to the railroads, I would say, very readily. Since 1976, the railroads have obtained increases from the Commission amounting to about 20 percent. I don't think the carriers have had much trouble obtaining rate increases, particularly rate increases on a general revenue basis.

Now, in the past several weeks the Commission has taken a closer look at some of these rate adjustments, and what we have looked at has been the question of what is a proper or an excessive return on certain commodities. In other words, in a general rate increase the carriers seek a percentage return on all commodities—everything they carry.

Usually, they will except out some commodities. Some of those commodities, however, are paying a very high rate already. Many of them are in the 180 to 200 percent of variable cost level. In other words, the profitable level in those commodities could be 70 to 80 percent.

The position that we have taken in the last two increases is that if certain commodities are moving at a very high level so that the

profits on those commodities are in excess, then the Commission should at least take a look at those because there is a clear indication that the railroad is using its monopoly power to charge excessive rates for the hauling of those commodities.

It seems to me that we have a responsibility to look at those.

Mr. ROONEY. If they are charging excessive rates, where do you get that 1.2 percent return?

Mr. O'NEAL. Well, because the 1.2 percent, first of all, is based on such investment, but it is based on all of the rates charged for all of the commodities they haul.

As we pointed out in the last rate case, the railroads are carrying a number of commodities at below variable costs. In other words, they are actually losing money on a number of commodities and on other commodities they are charging a very high rate.

I think the question presented to the Commission is whether it is fair to those people who are paying the excessive rates for certain commodities, whether they should be called upon to subsidize the entire railroad operation. If the railroads are to be allowed to charge whatever rates they want, even where they have monopoly power, then you can expect that there will be some real impact on those shippers, and some of those shippers are probably large, while some are small.

We have a number of complaints about the excessive rates from small farmers in the grain area, and those kinds of things I think the Commission has an obligation to consider.

Mr. ROONEY. He gave an example yesterday where a shipper wanted to pay an increased cost just to keep the service, and he was not permitted to.

Mr. O'NEAL. Well, I would like to know what that example is.

Mr. ROONEY. The bells have rung, and we are going to have to take a 10-minute recess.

[Brief recess.]

Mr. ROONEY. Mr. Chairman, service order 1309, which requires moving of rail trains within 24 hours, was announced yesterday by the Association of American Railroads. Apparently, profitable railroads such as the Southern Pacific and the Santa Fe, with reputations for good management, feel that this is also unworkable.

Are decisions such as this made in isolation by the industry?

Mr. O'NEAL. No.

Mr. ROONEY. What evidence do you have that this service order has produced results?

Mr. O'NEAL. I want to answer that question. I want to correct an impression that I think I may have left in response to your earlier question. I don't want to leave you with the impression that I feel that the railroads are generally making an excessive amount of money—that is clearly not the case.

There are some railroads that are recognized as being well managed that are doing rather well. We are concerned about the condition of the railroads. We will use the adequate revenue proceeding when we look at individual rate adjustments being proposed by the railroads. Even if those rates seem rather high, we will match that against the railroad revenue need and try to make a proper decision.

I don't think, however, that the answer to the railroad problem is in the area of rate increases. I don't think they can increase their rates enough and still retain enough business to remain viable. I think there have to be other ways and other things that the carriers have to do, and perhaps that the Government must do in order to—

Mr. ROONEY. What are some of the things that the Government and/or the carriers should do?

Mr. O'NEAL. I think the railroads have to work very diligently to become competitive with other modes of transportation. They have pretty much given up on manufactured goods or products and they are moving more and more to bulk commodities.

For example, if ConRail is to become viable, it will have to become more competitive. One thing that would be important, I think, in that connection would be for the railroads to engage more in piggybacking than they have in the past. We need more intermodal cooperation and coordination.

One area that the Commission is now engaged in is to review the possibilities of changing our regulations or making whatever adjustments seem to be necessary in connection with the Bureau of Standards to look at what can be done as far as improving or developing incentives for intermodal transportation. I think it is an important area that we engage in, and we are working in that area.

Mr. ROONEY. And what about car service order No. 1309?

Mr. O'NEAL. I am glad you raised that question.

Mr. ROONEY. You don't think you would have gotten out of here without it?

Mr. O'NEAL. Certainly not. I would not have wanted to, either.

As I mentioned earlier, the Commission will be taking another look at 1309 in the next few days, and we will have an oral argument on Monday. The basis for that order, which is an order that requires that certain functions of the railroad be performed within 24-hours, different operational steps, is that this has been a standard operating procedure or at least a standard used by many rail people in the past.

We have a number of people, for example, employed at the Interstate Commerce Commission now who once worked for railroads and had as their job the enforcement of the 24-hour standard internally on the railroad. So the standard comes from railroad practice.

The Interstate Commerce Commission, in enforcing this standard, has lately been much more vigorous, no question about it, than we were in the past. But even given that, the standard direction to the enforcement people in the field is that they should allow a 1-day grace period. So, in effect, we are enforcing at this stage a 48-hour rule rather than a 24-hour rule because we know that would be difficult to hold the railroads to 24 hours.

I think it is important to keep this in mind to get a perspective of what this rule would require of the railroads.

We did a check the other day to see what the possibilities would be for a railroad moving over existing track through existing terminals between Los Angeles and New York. Under the rule as it is now—and this is a 24-hour rule, not giving them a grace period—

the railroads would have 22 days, exclusive of actually moving the train, to go from Los Angeles to New York. The Southern Pacific has a published schedule in which they show that they can move commodities from Los Angeles to New York in 8 days, so I cannot really see from that that it is an excessive or a difficult standard to meet.

However, in recognition of the fact that you have to have exceptions to any rule, there are plenty of provisions in 1309 that would allow the railroads to apply for exemptions, and they do. The Southern Pacific hasn't, but many other railroads have applied for specific exemptions for certain problems that they have, and generally they have a good reason that those exceptions are granted. We will thrash this whole thing out on Monday.

We are not trying to be unreasonable. However, we do feel that we have an obligation in a severe car shortage situation such as we are in today to take appropriate action.

At least one thing we can say about the action we have taken thus far; it has certainly gotten the attention of railroad management, and we feel that that is one way to insure that the railroads are doing everything they can to move the cars faster.

There was another—

Mr. ROONEY. The second part of my question was what evidence do you have that—

Mr. O'NEAL. All right. Since the Commission put the order into effect or—let's say not since the order went into effect, but since the Commission took action against ConRail, which was in May, the demand for railcars has continued to remain high.

However, the shortage has dropped tremendously. Now there may be a lot of reasons for that, but we have got to think that certainly one reason was the Commission's enforcement of the car service order No. 1309.

Mr. ROONEY. Several witnesses have testified that thousands of bad order cars remain out of service because there is little economic incentive to fund the repairs. Will the provided formula which you mention on page 6 of your prepared statement stimulate repairs by offering a higher rate of return on cars that have undergone expensive repairs?

Mr. O'NEAL. No, that will not cover it the way it is drafted today unless the amount expended for repair exceeds 50 percent of the cost of replacement of cars which, for a boxcar, I guess is about \$17,000—a substantial investment. So I would have to say that the way that order or that rule stands today, it would not provide an incentive.

We are looking at the possibility of changing that in connection with the incentive per diem and among the things that we are looking at in our overall approach to doing something about car shortages in the long term. This is one of the issues we are considering, I think it is a valid point.

Mr. ROONEY. It seems clear that current regulations governing peak rates require the railroads to guess at future market conditions. What can the Commission do to insure that seasonal pricing would work positively, as was the intent of the Congress in the 4-R Act?

Mr. O'NEAL. The Commission spent a good deal of time trying to fashion a rule that would provide the railroads with some incentive. One of the things we did, because one of the major complaints of the railroads was that if they put into effect an incentive rate—for example, they reduce the rate for a certain period of time—and then want to cancel the rate, but could not obtain a cancellation of that rate.

One of the things we did in the rule was to provide that if a reduced rate were canceled within 3 years, there would be no problem; they can go ahead and do it and would not have to worry about suspension, unless it were shown that a shipper had relied upon their statements that the rate would be continued in effect for a longer period of time and it had been in effect for 2 years.

We have left this proceeding open. We are looking for ideas that can make this thing more workable, and as far as I know, we have heard nothing from the railroads as to what ideas they might have for making it function in an improved way. We would be very open to any suggestions.

One of the things we are working on in connection with the long-term review of what ought to be done about car shortages is to try to develop better market research abilities. If this were done, the railroads would have a little better idea of the market, and they could forecast the need for their cars and for rate adjustments.

I think it was apparent from the car shortage that occurred this year that there was an inadequate amount of information available. You know, we have subsequently, I think, strengthened our ties with the Department of Agriculture so we have a better interchange of information. We have a better idea of the picture as they see it, and I think that is an important thing.

There are a lot of other things that have to be done in order to improve the data base for us and also for the railroads.

I would like to mention one other thing that we are looking at which it is not quite on point, but it goes to the same thing. Under the 4-R Act the Commission has authority to exempt certain railroad functions or certain aspects of railroad performance from regulation. We are not sure how broad that authority is right now, and I don't pretend to state it at this stage, but one of the things we are doing is looking at a petition that has been filed which resulted in a proceeding to determine whether some agricultural commodities ought to be exempt from regulation. So this is one area that I think certainly if the Commission were to exempt perishable commodities from regulation, then the railroads would not have to worry about any restraint on their rate adjustments.

Mr. ROONEY. Mr. Chairman, would you yield to our colleague Mr. Grassley, who has a short statement?

Mr. O'NEAL. I will be happy to move.

Mr. ROONEY. No, just stay right there.

Mr. Grassley has another committee meeting, and I appreciate you yielding to him.

STATEMENT OF HON. CHARLES E. GRASSLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. GRASSLEY. Thank you, Mr. Chairman. I appreciate the opportunity to make this presentation. I probably come here as much out of frustration as anything.

I know that this committee has to get the full complete picture and not just try to solve one little or two little problems. You are looking for a long-range solution as well.

My relationship with this problem of car shortages has been as a farmer and as a representative of a rural constituency where that is a problem, and also as a member of the Family Farms Subcommittee under the Chairmanship of Congressman Nolan from Minnesota.

We made an attempt to look into some of the problems connected with the grain car movement and we have held some meetings on this subject, and I think we end up about where you are concluding; that there is no simple answer to it. I suppose the frustration comes from the fact that you run into some little things that I feel we ought to be working on while we are trying to get the big problem solved as well.

I would think, for instance, that this problem that was just brought up here by the gentleman from the ICC, that maybe the problem of incentives for fixing up some of the cars ought to be handled by itself.

A problem we ran into in some of our meetings on the family farm subcommittee was the fact that it is not easy, because of Government redtape, moving cars from Canada when they don't need them for grain shipment to the United States to follow the harvest of grain from the South to the North.

I don't see why we can't get a solution to that problem; to make it easy to move cars from that country to our country, back and forth so we can get maximum utilization of our capital investment.

Another problem we run into—and this is not probably something that this committee could deal with, but somewhere in government we have to deal with this problem—is that there is no grain inspection on weekends. So, the extent to which there is grain sitting in boxcars and on hopper cars waiting to be inspected—and there are not inspectors on weekends—that means 2 out of 7 days that car is sitting idle.

When we stop to think that the average car is only used for 14 trips a year and there would be \$4 billion more income to the industry if it were just used 18 times a year, which would be ideal, 2 days movement of that car would help considerably. The bottom line is that I have a feeling—and maybe we in Government don't appreciate this enough—but that there is probably as easy a solution to this in the private sector as there is in Government itself or even a public sector—private sector cooperation, and that would involve getting the private sector and various facets of the grain movement to sit down together to get some of these problems solved.

I am talking not just about the ICC and the USDA, two Government agencies which could be involved as well as the DOT, but grain elevator associations, farm groups, barges, truckers as probably an overall involvement of everything in this subject.

I have made a special point of talking to individual railroads myself on this approach, and I get the response, yes, we can solve the problem and you know everybody, whether you do it because you are a Member of Congress or why everybody has a sense that this can be done, and nobody ever seems to take the ball and run with it. So, to the extent that that is a viable alternative and the committee can promote that approach, I think it ought to be tried.

If there are no questions, then that is all I have to say.

Mr. ROONEY. Mr. Madigan.

Thank you very much.

Mr. GRASSLEY. I would like to leave the testimony in addition to what I said.

Mr. ROONEY. Fine. It will be made a part of the record.

[Congressman Grassley's prepared statement follows:]

STATEMENT OF HON. CHARLES E. GRASSLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

The subcommittee is well aware of how railroads have strained their freight-handling capacity to meet demand. Unfortunately, the past 30 years has left rail carriers with substantially less capacity. For instance, there are over 400,000 fewer freight cars in service today than was the case in 1947. There are also 14,000 fewer locomotives, 869,000 fewer railroad employees, and 38,000 fewer miles of track. In addition, the average rail car today is making only 14 trips a year, whereas in 1947, the average car made 22 trips. The railroads handled 20,863,800 less carloads of freight in 1977 than in 1947 and 10 percent of the total railroad car fleet is now awaiting repairs. Over 44,000 miles of track are under go-slow orders because their roadbeds have deteriorated.

These figures seem anomalous with the 100 percent increase in transportation demand that has taken place since 1947. We can point to counter-productive Federal regulations, inflationary factors and inadequate return on investment as factors in the rail carriers' decline, and yet we know that if the average car could make just four more trips a year, rail revenues would increase by \$4 billion. Of course, income can be increased by actions such as the I.C.C.'s recent general freight increase which should increase revenues by some \$700 million yet this kind of action is hardly sufficient to turn the railroads around.

Congress certainly has some responsibility to try to help deal with the current rail car shortage. For instance, we must be sure that the I.C.C. has adequate staff to monitor any trouble spots, and to take action to clear car gluts and to enforce service orders.

However, the June 29 meeting in Washington of railroads, I.C.C. officials, and others also revealed problems of the trade which, if ironed out, could result in substantial improvement. For instance, discounting procedures, single-use cars, and bad order car problems all contribute to the car shortage and yet they are really outside the realm of government. To the extent that we in Congress can help find solutions to these problems through review and recommendations to the private carriers, so much the better. But the roads themselves must share information in order to find solutions. In the meantime, they ought also to share where necessary facilities that will help them to maintain equipment and track, as well as improve technology.

Mr. Chairman, up to this point there has been a lot of finger pointing. This accomplishes nothing. In fact, there are many reasons why midwestern grain facilities have run into problems and the sooner we pinpoint those that can be dealt with, through the action of the Federal Government or the railroads themselves, the better off everyone will be. Clearly, improved coordination among carriers would be a big help; we in Congress must make every effort to encourage such coordination and to reduce or eliminate regulations which might stand in the way of such coordination. Federal tax policy, and laws regulating interstate commerce must be reviewed to insure that rail carriers have adequate incentive to invest in new equipment where needed, and are in a position to shift capital quickly to meet demand. We must insure that carriers have adequate information as to growing plans and harvests, as well as amounts of grain in storage at particular sites, so that they can predict what the demand on their cars will be, and can plan accordingly.

Finally, and perhaps a restatement of what has been said earlier, interested members of Congress must act to bring together on a more regular basis the various parties whose actions have an impact on the availability of cars at particular times, so that problems can be pinpointed and, if possible predicted in advance, and so that solutions can be met. Because of the disparate elements having an impact on the car shortage problem, it seems that only we can provide the coordinating mechanism necessary to get all the necessary parties talking and acting, rather than simply ignoring the problem on the assumption that its someone else's fault.

STATEMENT OF A. DANIEL O'NEAL—Resumed

Mr. O'NEAL. Mr. Chairman, I would like to comment on what Mr. Grassley has said, particularly the last few remarks.

I agree with him that one thing that is necessary and is helpful is for the parties that are in interest here to get together and try to work out an answer.

We have tried to do that through informal conferences that have been held throughout the country where we have sat down with shippers, with railroads, with any interested Government officials, including the State officials, and have tried to work out solutions. In many cases in a particular area this has been very successful.

I agree, it is something that needs to be continued and it is something we have to place additional emphasis on in the future.

I might also say that many of the recommendations that the Commission is looking at right now, some of which have been severely criticized by others, came from these informal conferences that we held in various parts of the country.

Mr. ROONEY. Mr. Madigan.

Mr. MADIGAN. Mr. O'Neal, does the ICC know how many railroad cars there are in the United States?

Mr. O'NEAL. Yes. We can give you an answer to that.

Mr. MADIGAN. Do you know, for example, how many covered hopper cars there were in the United States on the first of July this year which were actually in service?

Mr. O'NEAL. Actually in service, not bad order?

Mr. MADIGAN. Yes.

I don't want the information; I am just curious as to whether or not you have it.

Mr. O'NEAL. Yes, we have it. Mr. Burns has it, I think, right in this book. But it is about that thick and it may take him a while to find the exact number for that day.

Now I want to add that those numbers are numbers supplied by the railroads in regular reports that they make to the Commission. We don't actually go out and count the cars.

Mr. MADIGAN. In each category of car, whether it was a Government hopper car or a boxcar or a thing that you put the truck on—whatever it is—the Commission knows how many of them there are in the United States at any given point in time?

Mr. O'NEAL. I would say yes, I would say we know. I know within a plus or minus of 5 percent, I suppose, and there is some fluctuation because some cars are being phased out, being retired, other cars are entering the fleet. So it is not easy at any one time to be absolutely precise.

Mr. MADIGAN. And does the Commission also know on an annual basis how much of any given type of thing the railroads have transported? In other words, does the Commission know for a given

year how much corn was moved in freight trains, how much coal was moved in freight trains and so forth?

Mr. O'NEAL. We have that information in broad categories for the various commodities. It would take some time to break it down for very specific movements, but basically the data is there.

Mr. MADIGAN. I didn't understand the answer to an earlier question. Does the Commission actually know how many of them are actually in service?

Mr. O'NEAL. How many cars are actually in service?

Mr. MADIGAN. How many of each type of car are actually in service?

Mr. O'NEAL. Yes; again, within a certain error factor.

Mr. MADIGAN. Would it be possible to ask you how many railroad cars there were in the United States on July 1, 1978, July 1, 1976, July 1, 1970, in service and capable of moving agriculture commodities? Could you tell me the answer to that?

Mr. O'NEAL. Yes, we can give you a reasonably accurate answer, I think.

Mr. MADIGAN. That is the first question that I would like to have an answer to, at your convenience.

Second, I would like, at your convenience, to know how many tons of agriculture commodities and how many tons of coal were actually moved by railroads in the first 6 months of 1978, the first 6 months of 1976, and the first 6 months in 1972.

Mr. O'NEAL. 1978, 1976, and 1972?

Mr. MADIGAN. Right.

[The following information was received for the record:]

FREIGHT CAR OWNERSHIP AS OF JULY 1

| <u>Year</u> | <u>40-Ft. Narrow Door Boxcars</u> | <u>Plain Boxcars</u> | <u>Covered Hoppers</u> | <u>Open- Hoppers</u> | <u>Total Ownership</u> |
|-------------|---------------------------------------|--------------------------|----------------------------|--------------------------|----------------------------|
| 1970 | 218,921 | 380,227 | 128,577 | 392,015 | 1,432,886 |
| 1971 | 198,254 | 358,887 | 134,883 | 390,398 | 1,430,840 |
| 1972 | 188,247 | 352,121 | 135,757 | 385,779 | 1,448,890 |
| 1973 | 170,507 | 334,542 | 146,368 | 369,144 | 1,424,726 |
| 1974 | 157,731 | 329,605 | 153,168 | 355,990 | 1,416,681 |
| 1975 | 139,676 | 323,203 | 157,428 | 350,564 | 1,390,543 |
| 1976 | 119,736 | 301,333 | 157,583 | 352,963 | 1,371,975 |
| 1977 | 95,338 | 280,589 | 162,161 | 349,770 | 1,348,045 |
| 1978 | 74,448 | 257,372 | 163,778 | 341,554 | 1,307,050 |

Change (C) 144,473 (D) 122,855 (I) 35,201 (O) 50,461 (S) 125,886
 X Change (D) 66.0 (O) 32.3 (I) 27.4 (D) 12.9 (O) 8.8

CAR LOADINGS - FIRST SIX MONTHS

| | <u>Grain</u> | <u>Farm Products Except Grain</u> | <u>Coal</u> |
|------|--------------|---------------------------------------|-------------|
| 1970 | 674,604 | 388,487 | 2,572,981 |
| 1971 | 624,564 | 335,536 | 2,560,188 |
| 1972 | 585,364 | 316,434 | 2,334,781 |
| 1973 | 821,810 | 308,824 | 2,216,587 |
| 1974 | 740,351 | 281,717 | 2,372,004 |
| 1975 | 580,902 | 198,224 | 2,415,136 |
| 1976 | 639,345 | 194,839 | 2,375,109 |
| 1977 | 599,463 | 161,485 | 2,366,649 |
| 1978 | 631,909 | 115,014 | 1,911,031* |

* Coal Strike from November 1977 to April 3, 1978

Mr. MADIGAN. I am interested in knowing, Mr. Chairman, how much you know about the grain business. I am not interested in knowing that for the purpose of embarrassing you or trying to cut you short. I am just curious to know how much equally involved persons in important positions like yourself, how good an understanding you can have of the problems people out in the country are facing.

For example, if a country grain elevator sells 5,000 bushels of corn in November of 1977 for delivery in February of 1978 and orders the railroad cars so as to be able to effect that delivery in February of 1978 and then is not able to get the cars so that the delivery cannot be made; do you know what happens to the guy in the country grain?

Mr. O'NEAL. Well, I assume he loses the sale.

Mr. MADIGAN. He has sold on contract.

Mr. O'NEAL. Yes.

Mr. MADIGAN. He has promised to make the delivery. If he is not capable of making the delivery, then he is obliged to buy back the contract and cause the delivery to be made from someplace else.

So, in any event, he is not able to deliver, Mr. Chairman. He is going to have to pay the difference between the price of that commodity in November of 1977 and the price of that commodity in February of 1978. That is what it is going to come down to. That is the way it works.

In the case of a grain elevator in my district, what you had asked for was 30 cars during the month of January and 30 cars during the month of February and received only a total of three cars during that entire 60-day period of time. That elevator was obliged to buy back the contracts which they had sold and, as a consequence of being required to do that, experiencing a net loss of \$100,000, a sum of money equal to their net profit for the previous 3 years. They lost their net profit for 3 years on the transaction because they were not able to get railroad cars.

Were you aware that the consequences for somebody in that business can be that severe?

Mr. O'NEAL. Mr. Madigan, I am not familiar with the intricacies of the contracts, the sale and purchase of contracts in the grain business. However, we are very much aware of the fact that if a grain elevator or owner of an elevator cannot move grain at some point, this is going to cost him some money, and it was for that reason that we took two actions which we think have had some effect. One of them was to require that a certain number of cars be made available for the country elevator to use exclusively so that some of the pressure on the country elevators could be relieved.

Now I don't believe that order went into effect as early in the year as you are suggesting; January and February. I don't believe we had it then. That one went into effect in April.

That was also a reason why the Commission decided that there should be some cars made available from unit-trains; in other words, that there should be a limitation on the number of cars dedicated to unit-train service so that there would be additional cars made available for those shippers who did not have access to unit-trains.

While we recognize that this action might interfere with the efficiency of the railroad, might cost the railroad some money, we balanced this against the need of the country elevator to stay in business. I don't know that we caught all of the problems of the country elevators, but we did try.

One of the difficulties we had is that the information we have available today is not as current as it ought to be; that is, the data tends to be fairly old. In fact, the information available to us as to how many cars are required tends to be old, too.

In other words, there is a lag time of about 3 weeks, which is a very unsatisfactory situation; no question about it.

Mr. MADIGAN. Let me ask you about a particular situation which occurred in my district. This occurred at Thomasboro, Ill., which is a few miles north of Champaign/Urbana and is, by rail, a distance of about 50 miles from Decatur, Ill., which is a rather large soybean processing center.

They asked for, in a given period of time, 100 cars; they received 3. They have lost \$80,000 buying back prime contracts. They sent one car to Decatur loaded with soybeans. The car was to return from Decatur to Thomasville so that it would have made a round trip of 100 miles. It got back there 4 weeks later.

Does that seem to you to be a reasonable length of time for railroad cars to travel the distance of 100 miles?

Mr. O'NEAL. I don't think I would have any trouble answering that question. Clearly, no, that is not a reasonable period of time.

Mr. MADIGAN. The average time recently for railroad cars to move from Thomasboro, Ill., to Decatur, Ill., and back, a round trip distance of 100 miles approximately—that is my approximation—has been 24 days, which is less than 4 weeks. Is 24 days a reasonable length of time for a railroad car to go a hundred miles?

Mr. O'NEAL. I certainly don't think so.

Let me say in that connection—which railroad was that? Was that ConRail?

Mr. MADIGAN. No. That situation was a little bit worse.

Mr. O'NEAL. Oh, you are getting to ConRail.

The Commission has received this year, I suppose, more complaints about service than maybe in history. Now part of this, of course, is due to the severe winter conditions which had a tremendous effect on railroads in the Northeast and the Midwest; many of them just could not function properly. But even with that, we are inclined to believe very strongly that the performance could have been better.

The Commission has just recently, on June 19, come out with a proposed rule for setting some standards for performance by the railroads, and again we get into the 24-hour rule for certain phases of operation which the Chairman and I discussed a little bit earlier.

We feel that there should be performance standards for the carriers, particularly where they are providing service where there are not competitive means of transportation available, we have some obligation in those areas.

In addition to that we have, during the past several months, sent a number of our car service agents out on the railroads, particularly the railroads in the Northeast and particularly ConRail, to identify problems and try to get those problems resolved.

In a number of cases we found that the railroads, given the fact they are under severe conditions—the operating conditions were not good—yet there were a number of things that could have been done that were not being done, and we took action such as contacting the middle management of the railroad, ensuring they know of the situation in general.

They followed up with appropriate action. This was also one reason the Commission decided that we should strictly enforce the service order 1309 which imposes these 24-hour standards in certain operational phases of railroad operation, and it is one reason that the Commission has levied some fines and has obtained injunctions against management of these railroads for not performing adequately.

Mr. MADIGAN. Because you mentioned rail service agents, I understand that you have been given an increase in your appropriation that will enable you to hire 30 additional rail service agents.

I have two questions. The first question is, do you intend to hire them?

Mr. O'NEAL. Yes, indeed. I think we have really no alternative. The directive from the Congress is to hire 30 people, and unless we have some kind of problem with OMB which, at this stage, we don't anticipate, some problem of holding down the ceiling, we certainly plan to hire the necessary people.

Mr. MADIGAN. My second question is, do you intend to use those 30 new people to try to improve the service of ConRail?

Mr. O'NEAL. We will use them where we feel they are needed, and of course ConRail is the railroad that has generated the most concern. So, yes, they will be used on that property.

Mr. MADIGAN. All 30?

Mr. O'NEAL. What we will do is we will have them around the country and we will use them if there is any need for them on ConRail, which probably there will be. We will definitely use them there but—I don't want to say that we would commit to dedicating those 30 people only to ConRail; they may be used elsewhere around the country.

Mr. MADIGAN. Specifically, the House Appropriations Committee wanted to use that weight, did they not, Mr. Chairman?

Mr. O'NEAL. I think the House was much more specific than the Senate on that point, that is right.

Mr. MADIGAN. Can you do something about the 4 weeks that it takes to move a railroad car 100 miles in central Illinois?

Mr. O'NEAL. Well, I would hope so. I think we could certainly look into that. We do try to respond to specific complaints and we can look at that one and see what the problem is and see what can be done about it.

Mr. MADIGAN. Mr. O'Neal, in 1967, I went to the Illinois legislature, and one of my first contacts was with a railroad lobbyist who said to me: "When you get these complaints about country grain elevators about not getting enough cars to move grain, I am the guy to talk to; I will take care of it for you."

This was in 1967, and I got in in 1968 and 1969 and every year thereafter when I came out, and in 1973, I did not get away from that.

The witnesses from the railroad industry would have this subcommittee believe that this shortage of cars for country grain elevators is a new phenomenon, this is something that has not happened before, and I am a little bit troubled by that because I have been having requests for railroad cars and for help in getting railroad cars now for over 10 years, and I know you have had some experience with this even before you went to the Commerce Commission. So I would like to ask you if you regard the shortage of railroad cars and the grain service as something of a brand new phenomena?

Mr. O'NEAL. No, I would not say it is a brand new phenomena. I would say that in the last several years, let us say 3 or 4 years, we have gone through a period where there has not been a substantial shortage of freight cars around the country. But there certainly are periodical shortages of grain cars, and grain, of course, is the area where I think generally there are more problems than most other commodities.

Mr. MADIGAN. Most of us have not had the opportunity to read your statement, but we did read a press release from your office a short time ago which mentioned your new congressional liaison people and how we could look forward to the relationship between the Congress and the Interstate Commerce Commission improving substantially. Still your statement did not arrive here until about 7 o'clock last night and has not yet been distributed, I don't believe, to all the members of the subcommittee because of that late arrival. I would like to suggest to you that perhaps your press release

was in error because I don't feel that that improvement in relationships has occurred as a result of our experience with your statement.

I would hope that we would not have that experience again.

Mr. O'NEAL. Well, I hope you would not, either. I am not sure when we got the notice for the hearing, but because this is a collegial body, it is necessary to send the statement around for clearance of the other members. Sometimes there are changes made and the thing just does not get put together.

Generally we do try to meet the deadlines, and I think we have done fairly well. We may have blown it this time, and for that I apologize.

Mr. MADIGAN. With regard to my specific question about improving the utilization of cars in central Illinois, you actually have some authority to do something about that, don't you?

Mr. O'NEAL. There are a number of steps that we can take, yes.

Mr. MADIGAN. Mr. Chairman, because we did not have any witnesses from the agriculture industry at these hearings, which I understand is not your fault or not the fault of the subcommittee, but because that is a matter of such serious concern to the agriculture community, I would like to ask you to include in the record two items which relate to grain car shortages: One that reflects testimony before a subcommittee of the Agriculture Committee on that very subject; another one from the Small Business Committee that deals with the ConRail. I think each of those would be helpful.

Mr. ROONEY. Without objection, they will become part of the record.

[Information requested was not available to the subcommittee at the time of printing.]

Mr. ROONEY. For the gentleman's information, we did send notices.

Mr. MADIGAN. Yes, I understand this is not your fault or the fault of the subcommittee.

I would also like to make part of the record this summary that deals with some of the problems that a few country elevators are having in Illinois, Mr. Chairman.

Mr. ROONEY. Yes.

[Information requested was not available to the subcommittee at the time of printing.]

Mr. ROONEY. Thank you very much, Mr. Chairman. You always make a great witness here, and we are very fortunate to have a man of your ability at the helm of the ICC once again.

Mr. O'NEAL. Thank you.

Mr. ROONEY. Our next witness is a friend and neighbor, Thomas T. Church, vice president of transportation of the Bethlehem Steel Corp. I think he is a great representative here and a credit to the American Iron & Steel Institute.

STATEMENT OF THOMAS T. CHURCH, VICE PRESIDENT OF TRANSPORTATION, BETHLEHEM STEEL CORP., ON BEHALF OF THE AMERICAN IRON & STEEL INSTITUTE

Mr. CHURCH. Thank you very much for those kind words, Mr. Chairman.

I very much appreciate the opportunity to be here.

I have a statement which is being placed on the table and, of course, has been made available to you, I believe, on a timely basis. I would prefer to just leave it on file, if I may, and talk a little bit along the high points. Then I would be happy to answer any questions.

I do represent the American Iron & Steel Institute, which has about 94 percent of the productive capacity of the United States of the steel products and which uses not only a great deal of rail service but we are particularly dependent upon gondolas; they are the heart of our business, even though we do use some boxcars, quite a lot of flat cars and of course many hopper cars for moving our own materials.

We have chosen to emphasize incentive per diem on gondolas as improving the car supply to the steel industry, not, frankly, because we are that entirely wedded to the principle of incentive per diem but primarily because we felt it was the best handle, the best way to get something going to solve our problem.

You heard a lot of comments yesterday that were quite critical of boxcar incentive per diem, and I think frankly some of those comments were very well taken. We feel that gondolas represent quite a different problem, for several reasons. The boxcar which is primarily, or at least one of its major uses is grain and food products, does have a substitute as to particularly grain since the incentive per diem became effective on boxcars. Covered hopper cars have really taken over a great deal of the market that was formerly served by boxcars.

What is more of course, as you are well aware, the grain business and food businesses in general seem to be seasonal businesses or if not seasonal, at least very heavily price influenced and come in great glorious globs.

Those two things are not true to nearly the same extent of gondolas. Gondolas are a work horse; they are used year in, year out. It is certain there are variations, depending on the level primarily of the steel business, but also aggregates, sugar beets, many other commodities are loaded in gondola cars.

But the variations are much less. For instance, in terms of iron and steel articles originated since 1956 and 1957 were very high years admittedly, but loadings followed a very consistent pattern ranging from a low of 24 million in 1972 and a high of approximately 36 million as early as 1960 but in 1974 for instance 32 million tons were loaded. So the variations are relatively minor.

If you add in the scrap iron and steel scrap, that tonnage just tended to increase roughly in proportion of the capacity of the steel industry. Carloadings of iron and steel scrap in 1958 was as much as 15½ million, but by 1974, which is the latest year for which I happen to have figures here, it was as high as 37 million.

I am sure that dropped somewhat in 1975 and 1976, but I am sure it was also 30 or better.

So here we have a situation with a relatively constant demand in terms of growing rail service on steel products and steel scrap. Meanwhile, the supply of cars has been decreasing very rapidly, and what is more, on an escalating basis. The supply of cars has decreased to the extent of better than 25 percent in the last 10 years.

Now when we put this problem to the Commission—and I was extremely happy to hear Mr. O'Neal say that he expected to have a decision for us in the per diem base within 3 or 4 weeks. We hope it is favorable, but if not, at least we will know where we are at and will be able to try another tack. So we are looking forward to that. But in their consideration, the Commission has been looking primarily at when will this crisis hit of a declining supply of gondola cars and a basically, at least, stable demand for them?

It becomes a matter of timing only. The argument is purely about when are we going to have a crisis? Well, if you talk to a lot of the local scrap dealers and a number of our mill superintendents, they would tell you we had one hell of a car problem this spring. Admittedly in the summer the business levels are lower because of vacations and so on, and total railroad business is somewhat lower and the problem has not gone away. We still have a few minor car shortages even continuing now, but they are far less than they were in the spring.

Mr. ROONEY. What kind of service is ConRail giving the shippers in your area?

Mr. CHURCH. Wildly erratic. Sometimes the service can be quite superior for a long distance. If we are sending something to a point which is not on the main line and has many yardings, it can be terrible. It can be in the framework of the service Mr. Madigan was describing in Illinois.

This can be found in all rail service, not only ConRail. I think ConRail has had more perhaps than the general average. The erratic movement of cars in short and medium hauls is a major problem too, I am sure, for our customers. It is less true as far as a problem to ourselves because we are moving in bulk raw materials which come in batches, but that can be a problem. If there is a holdup that delays the movement of several trainloads of material, we will get it all at once. We will have two or three trains arriving at once. We will do our best, but you just get bunching at times that is hard to handle on a current basis.

We do feel there are some alternatives to incentive per diem in this situation. Mr. Buford mentioned one possibility yesterday in his testimony concerning trailer train as a possibility for some other form of a national pool, but Ms. Mikulski may remain at peace. We certainly intend to continue to fight the problem because we don't intend to go out of business because we cannot get enough railroad cars.

We are going to get our product moved one way or another. We shifted it to other modes, which is unfortunate; ConRail needs the money. But you have to take the actions that you feel you must take to get the job done. We have to keep our people at work.

As to whether we have any specific suggestions, utilization is about half of the problem. Obviously it can't solve the problem on gondolas where the supply is diminishing below the crisis point, but it certainly can improve the situation on a temporary basis.

I sit on the Utilization Committee that Mr. Dempsey referred to yesterday and I am trying to work with the railroads as my friends and others try to come up with ways to improve car utilization.

There are some good ideas being explored but, as you say, those are short-term solutions, and they are not a solution; they are merely an amelioration.

I believe that covers the items I wanted to highlight.

[Mr. Church's prepared statement follows:]

STATEMENT OF THOMAS T. CHURCH, VICE PRESIDENT, TRANSPORTATION, BETHLEHEM STEEL CORP., ON BEHALF OF AMERICAN IRON AND STEEL INSTITUTE

Mr. Chairman and Members of the Committee, I am Thomas T. Church, Vice-President, Transportation, Bethlehem Steel Corp. I am highly appreciative of this opportunity to respond, on behalf of the steel industry of the United States, to the interest of the Subcommittee in measures to deal with the pervasive and continuing problems of car utilization and supply of the railroad industry.

My statement is presented on behalf of the American Iron and Steel Institute, the trade association of the producers of iron and steel in the United States. The membership of the Institute includes approximately 94 percent of the total steel productive capability of the United States steel industry. The presentation here is made in my capacity as Chairman of the Traffic Committee of the Institute.

This Statement is concerned with the problems and possible solutions to the chronic shortage of gondola cars of the railroads of the United States. Gondola cars are the type of railroad car used in transportation of the majority of steel products and of iron and steel scrap from and to the steel plants of the United States. Ownership of those cars has been declining for many years and it has become increasingly difficult for shippers to obtain an adequate supply to meet their requirements for the transportation of these commodities. The difficulties in obtaining an adequate supply of these cars have been more severe in 1978 than at any time within memory.

The steel industry is concentrated in the territory served by Eastern railroads generally described as the area east of the Mississippi and north of the Ohio and Potomac Rivers. Approximately 70 percent of the iron and steel capability of the nation is located in that area. Railroads serving that area own approximately half the gondolas of the nation's railroads. Much of the iron and steel and scrap moves between points in that territory but a large portion of the finished iron and steel moves out of that territory to the West, Southwest and South. The territory is dominated by Conrail which serves almost every steel plant in the area.

The railroads provide an essential service to the steel industry. Substantially all the scrap and a volume approaching one-half the manufactured iron and steel moves by railroad. In addition, there is a substantial movement of semi-finished steel between steel plants. A shortage of cars results in lost business to buyers of steel and sellers of scrap and either lost production or disruption and inefficiency among steel plants. Effective and efficient rail service, and particularly an adequate supply of cars at shippers' loading locations, is essential to the economic health of suppliers, steel plants and steel users.

The matter of car shortages, and particularly shortages of gondola cars, has been of serious concern to the members of the American Iron and Steel Institute and its Traffic Committee for many years. Our experience with the problem has developed a high degree of appreciation for its complexity. In many respects the problem begins with the decline in railroad ownership of gondola cars. On the other hand, an improvement in utilization, that is, an increase in the number of shipments handled per car per year, could solve most of the problem. Improvement in utilization is a very knotty problem involving almost every facet of railroad operations and thus reaching into the entire railroad problem of the nation, including technological, financial and labor problems which do not lend themselves to quick or easy solution.

The degree of the decline in the ownership of plain gondola cars is shown in the following table:

OWNERSHIP OF PLAIN GONDOLA CARS—Class I Railroads

| | <i>No. of cars</i> |
|----------------------|--------------------|
| January 1, 1978..... | 176,894 |
| May 1, 1976..... | 143,344 |
| May 1, 1978..... | 132,211 |

This declining ownership should be balanced against the increasing production and shipment of steel. The contrast between the declining ownership of gondola cars

and the rising demand for transportation by the steel industry is shown in the attached graphs.

In seeking a solution to this problem, the steel industry has acted in the belief that an additional financial incentive for rail carriers to own gondola cars was the most direct and effective method to improve the situation. In cooperation with a number of railroads, we have urged the Interstate Commerce Commission to add an incentive factor to the per diem payable to gondola owners when the car is located on the rails of other railroads.

In making a decision whether to purchase a freight car, a railroad normally relies on the revenue which it expects to earn with that particular piece of equipment. Where the equipment is of a nature that the carrier is able to use it in the particular service for which it was purchased, the relationship between revenue and car ownership is direct and the level of per diem payments is not of major concern. Specially equipped cars of all kinds, covered hopper cars and even standard hopper cars, partake of this characteristic. However, so-called free-running cars, of which standard boxcars and standard gondola cars are the principal examples, are not easily controllable by the owning-line and when loaded to other areas of the country may not return to the owner for extended periods of time. In such cases, the only revenue accruing to the car owner is the per diem payments from the carrier on whose line the car is actually located. The per diem therefore must substitute for freight revenue as justification for purchase. In recent years, with inadequate funds for all types of investment, the railroads have been reluctant to invest in cars which will earn them little more than per diem; a sharp shrinkage of free-running box and gondola cars has resulted.

In the case of boxcars, the Interstate Commerce Commission responded to the situation by imposing incentive per diem, which was intended to provide enough revenue from pure car ownership to justify a purchase decision. On receiving the request to provide a similar incentive for gondola cars, the Commission early in 1977 initially agreed but withdrew its agreement prior to the effective date of the Order, and is still reconsidering the matter. A decision on this reconsideration is expected in the near future.

In the case of boxcars, incentive per diem has not been particularly successful. Indeed, because the I.C.C. Order required the incentive portion of the earnings to be earmarked for investment in additional boxcars, which the carriers view as unnecessary, the program has tied up some funds which in our opinion could be put to other profitable uses. We do not advocate such a set-aside of funds in connection with the gondola proposal.

An additional factual circumstance which tended to destroy the effectiveness of the boxcar IPD program and which differentiates the boxcar situation from that on gondolas is that to a large extent covered hopper cars have been substituted for boxcars as a more modern and efficient method of handling certain commodities formerly normally loaded in boxcars, principally grain. The supply of covered hopper cars has expanded very rapidly, providing some relief as to the commodities which the boxcar program was designed to benefit. In the case of gondola cars, however, there is not other type of rail equipment readily usable as a substitute on a scale substantial enough to alleviate the problem.

The principal reliance of those opposing an incentive per diem program for gondolas has been placed on the statement that while a problem may be developing, it is not yet serious enough to warrant such an extreme remedy. Mention is made of the recent well-publicized problems of the steel industry. This argument is completely unconvincing to the iron and steel scrap shipper who cannot secure cars to support his principal line of business, and to the steel shipper who is paying loading crews but who has no cars in which to load his production on a current basis. In some cases, production rolling turns have had to be removed from schedules and in numerous cases excessive stocks ready for shipment have caused rehandling of material at substantial additional expense over normal shipping costs.

We believe that an adequate economic incentive will cause the construction of cars for which demand is readily apparent and we hope the Commission expedites its decision.

As to other specific actions to improve the supply side of the equation, we believe that a newly rebuilt car, by the AAR definition, should be accorded the same treatment as a new car under the incentive per diem program, particularly because at the present time car builders have a large backlog which would delay construction of new gondolas even if additional incentives become available. There is a substantial number of gondolas owned by the carriers presently in bad order which would provide an immediate pool of candidates for reactivation. Bad order ratios on

gondolas are in the area of 10 percent nationally and as high as 29 percent on some specific railroads.

If the railroads preferred not to build these cars on an individual basis, a practical alternative would be for railroads generally, or regionally, to set up car-owning subsidiaries creating national or regional pools. Such action would tend to solve the present conflict between the better car utilization obtainable if cars are applied to loads as close as possible to the point at which they have been most recently unloaded and the alternative procedure, whereby the car service rules are designed to force a car to move back to the owning-line, with consequent detrimental effect on car utilization.

Present arrangements between Eastern gondola-owning carriers permit their cars to be used on a pool basis, which provides a substantial improvement in car utilization over that situation which would be obtained if empty gondolas were forced back to the owning line.

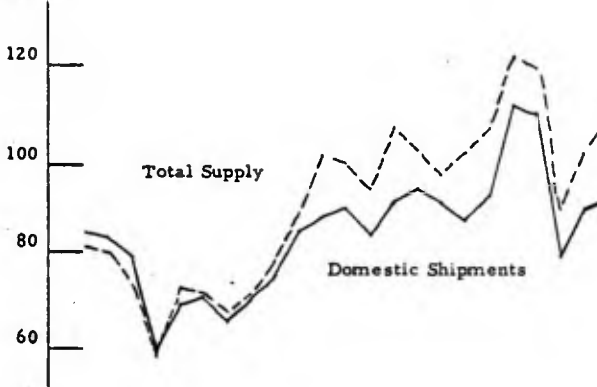
Further improvement in car utilization, in general, and gondola utilization in particular, are related to over-all business levels, motive power adequacy and operating procedures. A great deal of work is being done in these areas to improve the situation, but underlying most, if not all, of these efforts must be an improvement in the financial health of the railroad industry and particularly of ConRail.

We think that ConRail has been modestly successful in preparing itself for operational improvements and that its partial success thus far merits continued support by the United States for a private enterprise solution. Strengthening ability of ConRail to operate in response to economic imperatives will, we believe, tend to solve the problems associated with shortages of gondola cars and maintain and restore the railroad opportunity to continue to serve the steel industry.

In summary, the steel shippers believe that the changes which appear most productive in the search for a solution to car shortage problems do not lie in the area of legislative initiatives. We are also convinced that the remedy can be found in economic incentives rather than in detailed administrative intervention in railroad operations. The changes in government policy toward improving the financial position of the railroad industry in the 4-R Act will, if properly implemented, provide a promise that the railroads will be able to develop an improved capability for efficient rail operations and an improved supply of cars. The ultimate solution to the problem must include a substantial improvement in the service capability of both ConRail and the railroad industry as a whole.

Steel Shipments*
and
Available Steel Supply**

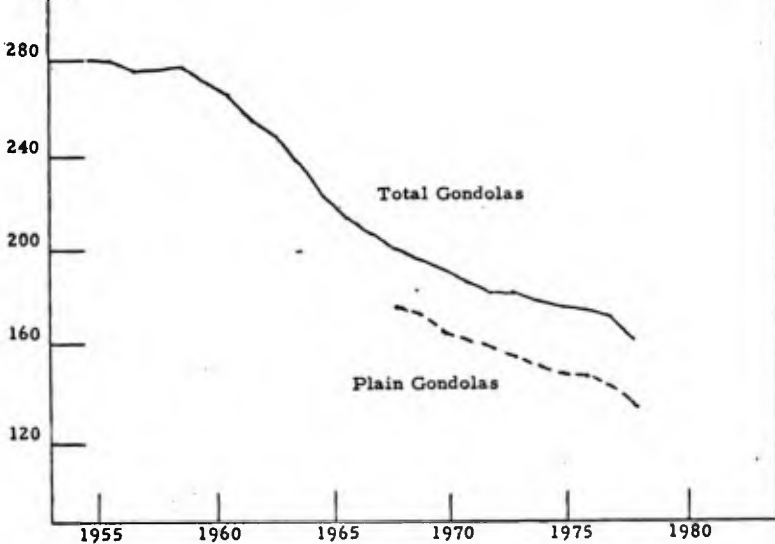
(Millions)



*Total Shipments of Finished Steel Mill Products by U.S. Producers
**Shipments by U.S. Mills, Less Exports, Plus Imports

Ownership of Gondolas
Class I Railroads

(Thousands)



Mr. ROONEY. Thank you very much, Mr. Church.

We will take a 10-minute recess for the purpose of voting on an amendment.

[Brief recess.]

Mr. ROONEY. The subcommittee will resume.

Mr. Church, in your excellent discussion of this problem of the shortages, I notice that you did not mention private car ownership. In your opinion, could this be a solution for the scrap industry as it has been for some coal, grain, and chemical businesses?

Mr. CHURCH. Presently, the amount which is given by the railroads to the operator of a private gondola car is, I believe, 4 mills per mile. This provides a major disincentive to any investor in gondola cars.

As far as the steel industry is concerned, we would certainly prefer not to invest in a large car fleet; that is not our principal business. And we have so many places to put money of which we don't have enough like most people so that I would encounter a great resistance in my own company to secure money to build freight cars and the combination of that with the disincentive makes it a poor bet under present conditions.

In addition, I could visualize a situation where it might be practical if a specific arrangement were made for particularly a short haul which was perhaps unattractive for the railroad to haul to make it worthwhile for somebody to put their own cars into that kind of service. That would be something that one would negotiate on an individual basis.

Mr. ROONEY. The ICC is considering the contract rate authority for railroads. Assuming reasonable ICC regulations, do you think the iron and steel industry would resolve the availability problem through service contracts with the railroads?

Mr. CHURCH. First, I must say I am not authorized to speak for the Iron and Steel Institute on any subject concerning rates. I will answer as Thomas Church.

Movement of unit trains and the like is so close to contract authority that I really can't see any major advantage. We have operated in Canada on iron ore under contract rates, and it gives one an assurance that you will have a rate for say a year's time, but you can also be sure at the end of that year they will come back and say "Inflation has done the same to us as to you and we will now raise the rate 15 percent." So your contract merely escalates on a different basis from the other rates, so you have not really advanced the ball a great amount, in my personal opinion.

Mr. ROONEY. In the area where most of the steel is shipped in the United States, which is the Northeast primarily?

Mr. CHURCH. Shipped from, yes, although we ship to the entire area.

Mr. ROONEY. I know, but most of the steel is manufactured in this country in the Northeast.

Mr. CHURCH. About 70 percent or better in Chicago or East, yes.

Mr. ROONEY. And is shipping steel on these gondolas not profitable for the railroads?

Mr. CHURCH. In general, it is one of the commodities that Mr. O'Neal was referring to as carrying its full weight in terms of

freight charges. The rates are, in general, quite remunerative to the railroads.

Mr. ROONEY. On page 4 of your testimony you state that you favor incentive per diem for gondolas. Can you estimate the amount that would be received by private car owners?

Mr. CHURCH. We probably, in this case, would have this car under railroad markings. As I have been told, X-334, which is the Commission's regular per diem case as opposed to incentive per diem, now being challenged in the courts, would increase the average yield on a new gondola that was kept off line most of the time somewhere in the bracket of 35 to 40 percent in terms of a yield and thus is certainly a highly attractive financial arrangement.

Incentive, per diem could make the yield higher than that. I don't feel qualified to say, if that does become effective, whether any incentive is required. We have no assurance that even the X-334 level will become effective.

Mr. ROONEY. Is Bethlehem Steel in the business of manufacturing car equipment?

Mr. CHURCH. We are.

Mr. ROONEY. You build cars?

Mr. CHURCH. Yes, sir.

Mr. ROONEY. Is that in the Johnstown plant?

Mr. CHURCH. Johnstown.

Mr. ROONEY. Have you ever thought about building your own gondolas?

Mr. CHURCH. We presently operate approximately 8,000 private cars in our steel plants to avoid the use of railroad-owned equipment in in-plant service. Of those, a very substantial proportion are gondola cars. Additionally, the steel industry in general, through subsidiary railroads, makes a fairly substantial contribution to the car fleet.

In fact, I can identify approximately 11,500 gondola cars operated by railroads which are in the steel industry in over-the-road, some of which are Bethlehem affiliated carriers.

Mr. ROONEY. I have no further questions.

Thank you very much for your excellent testimony.

Mr. CHURCH. Thank you very much.

Mr. ROONEY. Our next witness will be Mr. J. Robert Morton, vice president, corporate transportation and distribution, representing the National Industrial Traffic League.

STATEMENT OF J. ROBERT MORTON, ON BEHALF OF THE NATIONAL INDUSTRIAL TRAFFIC LEAGUE ACCOMPANIED BY JOHN OLLWEILLER, CHAIRMAN, RAILROAD RATES AND PRACTICES COMMITTEE, JOHN F. DONELAN, GENERAL COUNSEL, JAMES E. BARTLEY, EXECUTIVE VICE PRESIDENT, AND FRED GUTERMAN, CHAIRMAN OF THE LEAGUE SUBCOMMITTEE ON CAR LOCATION MESSAGES

Mr. MORTON. Mr. Chairman, my thanks on behalf of the league for giving us this time slot. It is not my intention of reading the league's entire statement.

Mr. ROONEY. The statement will become part of the record, and you may continue to summarize.

Mr. MORTON. Thank you.

Mr. MORTON. I am J. Robert Morton. I appear today in behalf of the National Industrial Traffic League, whose headquarters address is 1909 K Street NW., Suite 410, Washington, D.C. 20006. As you have stated, I am currently the president of the league. I am employed by Combustion Engineering, Inc., Stamford, Conn., as vice president, corporate transportation and distribution. My experience in the field of industrial traffic management spans more than 40 years.

With me today is Mr. John Ollweiler, general traffic manager of Amax, Inc., Greenwich, Conn. Mr. Ollweiler is also chairman of the league's railroad rates and practices committee. Also accompanying me is Mr. John F. Donelan, general counsel for the league and senior partner in the Washington, D.C., law firm of Donelan, Cleary, Wood & Maser.

Over the years the league has presented its views on freight car utilization and related issues. Today I would like to reacquaint the committee with some of the league's longstanding policies with respect to freight car utilization and railroad service. Also, I would like to acquaint the committee with what the league has been doing in recent months in an effort to improve freight car utilization.

The league's testimony today is divided into three parts. The first part deals with a subject which is of critical concern to the league and its members. A subject that was addressed at recent hearings before the Senate Surface Transportation Subcommittee which we think should be handled separately from hearings on freight car shortages and freight car utilization. That subject is a proposal which is supported by the Association of American Railroads to reestablish the so-called no-suspend zone and to expand the no-suspend provision from 7 percent to 15 percent. The railroads have also proposed in recent testimony that the no-suspend zone should operate without the market dominance provisions.

The second part of my statement will deal with freight car utilization and freight car shortages, and the third part of the testimony addresses the need for an automatic car identification system.

At the July 12 hearing on S. 3260 and freight car utilization before the Senate's Surface Transportation Subcommittee, Association of American Railroads President William H. Dempsey proposed the zone of reasonableness be reestablished and expanded from 7 to 15 percent for any calendar year and be allowed, for an additional 5-year period, operating without the market dominance provision of the 4-R Act.

The league is not in agreement with the AAR position; it does not agree with the response by the ICC Chairman O'Neal in his testimony before the Senate Surface Transportation Subcommittee on July 12. Chairman O'Neal noted that:

The purpose behind the no-suspend provision, as we understand it, was to lessen regulation in areas where competitive forces would insure reasonable rates; it was not designed as simply a revenue-producing concept. The Congress included a market dominance test to assure that meaningful competition existed before a rail carrier could raise its rates without fear of suspension. If effective competition exists, a shipper should have a reasonable alternative to a rail rate increase. If no such competition exists if a carrier has market dominance, the shipper needs the protection of the Commission's suspension power. The effect of the DOT bill appears

to be to permit the railroads to increase their rates in markets where competition does not restrain their market power. In these markets involving such commodities as coal and grain, the captive shipper would be forced to accept the lead to increased rates in areas where a carrier has market dominance, with little impact elsewhere. I should note that, while the yo-yo relates to increases and decreases, no decreases have been proposed under this provision during the 2 years that it was in effect.

It is unfortunate that the railroads have not taken full advantage of the ratemaking freedoms provided them by the 4-R Act. The league has supported the Interstate Commerce Commission's present interpretation of market dominance, and it is apparent to me that the shipping public, in large measure, has supported and is supporting the Commission in its decision and order with respect to the application of the market dominance provisions of the 4-R Act. The Commission has explicitly provided for supplementing or otherwise amplifying the principles with respect to market dominance as present and future experience may warrant. In a proceeding as complex and the one which formulated the market dominance rules, it would be unlikely if any of the participants fully agreed with each and every part of the regulations. Nevertheless, the league believes that the Interstate Commerce Commission thoroughly studied the issues involved and arrived at a set of regulations which should be given the opportunity to be tested.

The long-awaited Department of Transportation study of the Nation's railroad system called for under the 4-R Act is to be submitted to Congress shortly. League committees will be studying the issues and recommendations in the study on rail pricing, revenues, needs, and other issues. We believe it is premature to begin legislative consideration of alterations of only certain of the provisions of the 4-R Act prior to the review and consideration of the report and recommendations by Congress and interested groups.

The league hopes that the interjection of this extraneous issue will not impede early efforts to alleviate mounting freight car shortages and the spirit of cooperation between shippers, rail carriers, and the Interstate Commerce Commission to alleviate this most serious problem.

I would now like to return to the topics of freight car utilization, the national car shortage and automatic car identification and outline the NIT league's involvement in these areas and possible solutions to these pressing problems.

As I indicated earlier the league has, for a number of years, been concerned with freight car utilization and freight car shortage problems. It appears that although these issues have been the subject of a number of investigations and hearings, there has been no solution. A slight upturn in the economy and there is not a sufficient supply of suitable freight cars to transport this Nation's commerce.

The league recognizes that there are a number of problems that are contributing factors to the current freight car situation. Although the problem may be simply defined, the causes are more complex. In a recent circular to members of the National Industrial Traffic League, we asked for comments on several questions in an effort to identify effective short-range solutions.

I believe the national freight car shortage is due to a number of reasons, including the lack of motive power, deterioration of physi-

cal plant, a slowdown in car repair and maintenance programs, a general decline in the total number of serviceable and suitable freight cars and, importantly, the subject of productivity in the movement of freight cars from point of loading through unloading and placement at another shipper's platform for another load.

For the last several months and, indeed, for as many years as I can remember, the league has been involved with the subject of freight car utilization and freight car shortages. On April 12, the league wrote to Mr. Joel Burns, Director of the ICC's Bureau of Operations. The letter said that the league had, in the past, suggested various methods to prevent or ease car shortages, including: (1) A nationwide free running pool of freight car; (2) per diem rates adequate to encourage and justify car ownerships; and (3) improved tax provisions for depreciation, obsolescence, and investment credit.

The April 12 letter also made the following proposals: (1) Prescribe and enforce performance standards and penalties against railroads for not moving either loaded or empty cars when failure to do so contributes to a car shortage; (2) impose a condition similar to that imposed in ex parte No. 305 that would require the railroads to keep an accounting of the revenue obtained by the railroads under service order 1315; and (3) exclude the provision in service order 1315 that requires two credits to offset one debit and reinstate all existing provisions for average agreement.

On April 19, the league again wrote Director Burns, Director of the ICC Bureau. That letter made three points: (1) Where practicable, the Commission should consider giving shippers more advance notice of car service orders; (2) the ICC should weigh the full impact of its car service orders on the entire transportation industry and the Nation; and (3) the ICC might wish to consider designating a portion of a future railroad general rate increase for the express purpose of repairing cars.

Also, the letter addressed one of the possible origins of the current and chronic car shortages. The league raised the question of whether some of the problems might be caused by an excessively high bad order ratio on some lines. We suggested that, if this is the case, the Commission might wish to consider steps to encourage railroads to reduce their bad order ratios. Not only would this help the shipping public, but it would also give the railroads themselves more revenue-producing equipment.

On May 2, the league again wrote to Director Burns reiterating several of the points made in earlier letters. The league relayed to the ICC some league members' concern that, although receivers endeavor to promptly unload cars, the cars are not always moved by the railroads and, on occasion, are left on adjacent tracks, for reasons unknown to the receiver who promptly unloaded the car.

On June 20, I wrote to the president and chief executive officers of the Nation's class I railroads and said:

Frankly, reports from shippers and receivers across the country indicate that the problems of car supply and service are worsening. These situations are of great concern to me. As president of the National Industrial Traffic League, I want to strongly reaffirm my complete dedication to opening the lines of communication between the shipping public and carriers.

I then asked each of them to tell me what their railroad was planning to do both short range and long range to resolve the freight car supply and the railroad service problems.

In my opinion, this input on what the railroads are doing will be extremely helpful to the league and shippers generally as we proceed with long-range solutions or recommendations with respect to our car supply and car utilization.

The league has also been active in many other areas in an attempt to assure the Nation's shippers of an adequate car supply. The league supported the financial provisions in the 3-R and 4-R Acts to assist the railroad industry in overcoming its car supply problems. League representatives serve on the freight car utilization research-demonstration program, along with railroad, labor, Government and other industry representatives. The league has participated, as you well know, in many ICC proceedings intended to ease car shortages, including ex parte No. 241; ex parte No. 252, Sub No. 1; ex parte No. 252, Sub No. 2; and ex parte No. 334. The league and the Nation's shippers supported the use of an automatic car location system and the use of ACI labels, in particular. And finally, the league is now working with the AAR and Southern Railway on two publications designed to reduce the number of damaged cars and to insure clean cars for loading.

On July 7, 1978, the league, in cooperation with the Southern Railway, sent information to its entire membership outlining the need for shipper cooperation in cleaning freight cars after unloading. Two documents were put together and mailed to league members; a large poster which was to be placed on the bulletin board or other area, and a folder explaining what the problem is and what shippers can do to help solve it. In the communication to the league members I said:

Let the league again demonstrate its sincerity and dedication in cooperative efforts to resolve the problem of dirty, unusable freight cars. The current car supply shortages drive home the point that every car counts. But even in the best of times, shippers and receivers have an obligation to leave cars in clean, usable condition. Cooperation is the key. I call upon all League members to join in this program.

As I previously indicated, the league, on June 23, sent a circular to all its members asking for comments on the deterioration of rail service and the car shortage to assist league officers in further presentations to the Interstate Commerce Commission, the railroad industry, the Federal Railroad Administration and congressional committees. Since that time, a great number of responses have been received by the league from its members. In the near future, the league will be making recommendations as to how its members believe the national freight car shortage, car utilization and car identification problems should be solved, and we will be pleased to make this information available to this subcommittee.

Over the years the Nation's railroads have moved ahead in efforts to improve car utilization and they have taken advantage of technological developments for car location and identification of equipment. However, last November the railroad industry announced that it was canceling an automatic car identification system that had been in effect since 1966. This system might not have been the best, but it was a system that both the railroads and the shippers had expended a considerable amount of money to

develop. Unfortunately, the railroad industry was unable to offer a substitute for the system.

In speaking of the system we, in the league, are not talking about a specific company or a specific system, but we are using a generic term.

Currently, the Interstate Commerce Commission has before it a proceeding docket No. 37600, regarding an investigation for the need for regulations governing the use of automatic car identification systems. On July 7, the league submitted to the Commission a petition and comments seeking broadening of the requested rule-making proceeding. In its filing, the league urged the Commission to broaden the instant proceeding to include an investigation of the need for an adequate and reliable automatic car identification system for the Nation's railroads.

The league does support an automatic car identification system. We are hopeful that the current ICC proceeding will provide shippers and carriers an opportunity to assist in the development of such a system. The appropriate league committees involved with car location, car identification and car supply have made a recommendation to the league membership. The outstanding recommendation provides:

1. That the Interstate Commerce Commission should hold in abeyance the AAR change to rule 88 that allows the discontinuance of car labeling for automatic car identification purposes until a complete and thorough investigation of the impact and effects of that rule change on the shipping public can be ascertained;

2. That the Interstate Commerce Commission should insure 100 percent participation in and use of automatic car identification by AAR participating U.S. railroads so that a full and accurate assessment of the system can be accomplished.

In conclusion, Mr. Chairman, the league, as you can see, is greatly concerned about the Nation's freight car utilization problem, the national car shortage, reestablishment of some type of an automatic car identification system and related matters. In my testimony today I have offered numerous examples of league activity in these areas as well as possible avenues to pursue to achieve desired solutions to the problem, and I assure you that the league is going to continue to pursue these matters.

The league believes the answer to these problems lies in a cooperative working arrangement between the rail industry, shippers and involved Government agencies. Extraneous efforts to prematurely revise the 4-R Act should be put aside at this time and full attention paid to the critical freight car situation.

At the appropriate time, we would welcome an opportunity to provide extensive views on these other issues. The league and its members will be pleased to work with this subcommittee, the Congress, the Interstate Commerce Commission, the Federal Railroad Administration, and the Association of American Railroads in shaping solutions acceptable to both carriers and shippers in regard to the national freight car utilization problem. We have endeavored to work closely with both Government and industry in the past on these matters and will continue to offer our strong cooperation and support for reasonable and fair solutions to these most important issues.

Thank you, Mr. Chairman, for allowing me to present the league's views at today's hearings. My colleagues and I would be pleased to answer any questions which you, the subcommittee, or the staff may have for us.

I want to assure you that any time you want to call on the league and we can answer any questions, we stand there ready to do it.

[Testimony resumes on p. 258.]

[Mr. Morton's prepared statement follows:]

**STATEMENT OF J. ROBERT MORTON, ON BEHALF OF THE NATIONAL INDUSTRIAL
TRAFFIC LEAGUE**

Mr. Chairman, Members of the Subcommittee:

My name is J. Robert Morton. I appear today in behalf of The National Industrial Traffic League whose headquarters address is 1909 "K" Street, N.W., Suite 410, Washington, D.C. 20006. I am currently the President of the League. I am employed by Combustion Engineering, Inc., Stamford, Connecticut, as Vice President, Corporate Transportation and Distribution. My experience in the field of industrial traffic management spans more than 40 years.

With me today is Mr. John Ollweiler, General Traffic Manager of Amax, Inc., Greenwich, Connecticut. Mr. Ollweiler is also Chairman of the League's Railroad Rates and Practices Committee. Also accompanying me is Mr. John F. Donelan, General Counsel for the League and senior partner in the Washington, D.C. law firm of Donelan, Cleary, Wood and Maser.

The National Industrial Traffic League is a voluntary organization of 1,800 shippers, shippers' associations, boards of trade, ports, chambers of commerce and other entities concerned with rates, traffic and transportation services of all carrier modes. It is the only shipper organization which represents all types of shippers nationwide. Its members include large, medium and small shippers who use all modes of transportation and who ship all types of commodities. The League is not a panel or committee of a trade group, or a spokesman for a particular commodity or transportation point of view, and does not permit carrier membership.

The League's primary concern is to provide for the nation and all its shippers a sound, efficient, well-managed transportation system privately owned and operated.

To arrive at positions reflective of the broad range of shipper interests within the League, the League membership at its annual and special meetings considers, debates and votes on actions to be taken.

The League is dedicated to insuring a system of transportation adequate to meet the needs of the commerce of the United States and the national defense. To represent its members, the League regularly appears before the Interstate Commerce Commission, the Department of Transportation and other transportation regulatory agencies as well as offering input concerning transportation matters before the committees of the Congress of the United States.

Over the years, the League has presented its views on freight car utilization and related issues. Today I would like to reacquaint the Committee with some of the League's long-standing policies with respect to freight car utilization and railroad service. Also, I would like to acquaint the Committee with what the League has been doing in recent months in an effort to improve freight car utilization.

The League's testimony today is divided into three parts. The first part deals with a subject which is of critical concern to the League and its members. A subject that was addressed at recent hearings before the Senate Surface Transportation Subcommittee which we think should be handled separately from hearings on freight car shortages and freight car utilization. That subject is a proposal which is supported by the Association of American Railroads to reestablish the so-called "no-suspend zone" and to expand

the no-suspend provision from 7 percent to 15 percent. The railroads have also proposed in recent testimony that the no-suspend zone should operate without the market dominance provisions.

The second part of my statement will deal with freight car utilization and freight car shortages and the third part of the testimony addresses the need for an automatic car identification system. J

15 PERCENT NO-SUSPEND ZONE WITHOUT MARKET DOMINANCE

One of the purposes of the 4R Act was to provide the rail industry with innovative marketing tools to offer incentives to rail users to utilize off-peak periods for rail movements. To this end the League supported provisions in the bill to provide new techniques in ratemaking. However, the League strongly opposed and has continued to oppose no-suspend zones. The League believes such no-suspend zones are unwisely limitations on the Interstate Commerce Commission's power to suspend increases which exceed a just and reasonable level. In P.L. 94-210 the 7 percent no-suspend zone, the so-called yo-yo provision, was limited by a "market dominance" provision to protect "captive" shippers, and was further limited by a two year sunset provision.

Unlike innovative ratemaking techniques which could provide incentives for better utilization of freight cars, the no-suspend zone has no relationship to freight car utilization.

At the July 12 hearing on S. 3260 and freight car utilization before the Senate's Surface Transportation Subcommittee, Association of American Railroads President William H. Dempsey proposed the "zone of reasonableness" be reestablished and expanded from seven to 15 percent for any calendar year, and be allowed for an additional five year period operating *without* the "market dominance" provisions of the 4R Act.

The League is not in agreement with the AAR position; it does agree with the response by the ICC Chairman O'Neal in his testimony before the Senate Surface Transportation Subcommittee on July 12. Chairman O'Neal noted that "The purpose behind the 'no-suspend' provision, as we understand it, was to lessen regulation in areas where competitive forces would ensure reasonable rates; it was not designed as simply a revenue-producing concept. The Congress included a market dominance test to assure that meaningful competition existed before a rail carrier could raise its rates without fear of suspension. If effective competition exists, a shipper should have a reasonable alternative to a rail rate increase. If no such competition exists-if a carrier has market dominance-the shipper needs the protection of the Commission's suspension power. The effect of the DOT bill appears to be to permit the railroads to increase their rates in markets where competition does not restrain their market power. In these markets involving such commodities as coal and grain, the 'captive' shipper would be forced to accept the lead to increased rates in areas where a carrier has market dominance, with little impact elsewhere. I should note that, while the Yo-Yo relates to increases and decreases, no decreases have been proposed under this provision during the two years that it was in effect."

It is unfortunate that the railroads have not taken full advantage of the rate making freedoms provided them by the 4R Act. The League has supported the Interstate Commerce Commission's presents interpretation of market dominance and it is apparent to me that the shipping public in large measure has supported and is supporting the Commission in its decision and order with respect to the application of the market dominance provisions of the 4R Act. The Commission has explicitly provided for supplementing or otherwise amplifying the principles with respect to market dominance as present and future experience may warrant. In a proceeding as complex as the one which formulated the market dominance rules, it would be unlikely if any of the participants fully agreed with each and every part of the regulations. Nevertheless, the League believes that the Interstate Commerce Commission thoroughly studied the issues involved and arrived at a set of regulations which should be given the opportunity to be tested.

In statements just prior to the beginning of this session of Congress, the Department of Transportation and the Interstate Commerce Commission set forth their views on the ratemaking provisions of the 4R Act at the House Subcommittee on Transportation and Commerce's Congressional Symposium on Railroads.

ICC Chairman A. Daniel O'Neal said in regard to Section 202 of the Act, "With 2 or 3 years of additional experience and the availability of improved intermodal data, it will be possible to develop more definitive conclusions on the success and impact of the ratemaking provisions." In the DOT statement of Secretary Brock Adams, Mr. Adams stated, "No additional legislation is needed at this time in view of the still limited experience under the regulatory reform provisions contained in the 4R Act." He went on to say, "The Commission and the Department (DOT) should meet with representatives of the railroad industry and shipper associations to encourage use of existing regulatory reform provisions and to solicit those groups' opinions on the need for additional legislation. . . ."

The long awaited Department of Transportation study of the nation's railroad system called for under the 4R Act is to be submitted to Congress shortly. League committees will be studying the issues and recommendations in the study on rail pricing, revenues, needs and other issues. We believe it is premature to begin legislative consideration of alterations of only certain of the provisions of the 4R Act prior to the review and consideration of the report and recommendations by Congress and interested groups.

The League hopes that the interjection of this extraneous issue will not impede early efforts to alleviate mounting freight car shortages and the spirit of cooperation between shippers, rail carriers and the Interstate Commerce Commission to alleviate this most serious problem.

I would now like to return to the topics of freight car utilization, the national car shortage and automatic car identification and outline the NIT League's involvement in these areas and possible solutions to these pressing problems.

FREIGHT CAR UTILIZATION AND CAR SHORTAGES

As I indicated earlier, the League has, for a number of years, been concerned with freight car utilization and freight car shortage problems. It appears that although these issues have been the subject of a number of investigations and hearings, there has been no solution. A slight upturn in the economy and there is not a sufficient supply of suitable freight cars to transport this nation's commerce.

The League has a policy of long-standing which is particularly applicable to the subject of today's hearing. That policy, B-13, relates to transportation instrumentalities and car services and provides that:

The Congress should recognize the serious jeopardy to the national economy resulting from the long existing inadequate national freight car supply and adopt measures to assure, in the public interest, that railroads provide sufficient serviceable cars and motive power to meet the current and projected demands of the shipping public.

Carriers should provide equipment within the pool concept according to a suitable car ownership formula which will recognize shippers' requirements according to what railroad serve origins and participate in line-haul movements of their particular traffic. This program should include long-range planning as well as provision for present needs and be implemented by an adequate research and development program designed to give recognition to innovations which may be available in the equipment area.

The League supports per diem rates adequate to encourage and justify car ownership, which will meet these demands.

To achieve this objective the League will support improved tax provisions for depreciation, obsolescence, and investment credit, as well as other measures designed to augment the national car fleet.

Adequate maintenance of a car fleet is essential to meeting shipper requirements for equipment and the bad order percentage for any class or type of car for each owning railroad should be held to the maximum consistent with an orderly, efficient and adequate maintenance program.

The League strongly advocates the publication by the railroads of service standards for both over-the-road and terminal movements in order to secure improved utilization of the entire car fleet.

While adequate car supply is primarily a railroad responsibility, it is incumbent upon shippers to advise of their requirements and the League should foster a program designed to provide information well in advance as to what car requirements will be, both short and long-term.

The League recognizes that there are a number of problems that are contributing factors to the current freight car situation. Although the problem may be simply defined, the causes are more complex. In a recent circular to members of The National Industrial Traffic League, we asked for comments on several questions in an effort to identify effective short range solutions. These questions included:

- (1) Is there a real shortage of suitable freight cars, or are the car supply problems simply due to temporary abnormal demand situations or distribution practices?
- (2) Would the acquisition of additional cars - the current size of the estimated car shortage - solve the car shortage problem?

- (3) Which of the following are responsible for the slow turn-around of freight car equipment; lack of motive power, poor road-bed, employee attitudes, management decisions, or other factors?
- (4) Would an increase in incentive per diem help resolve the present situation? If so, what size of increase would be most effective?
- (5) To what degree would a free running pool of suitable freight car equipment help the nation's shippers?
- (6) Would your company be willing to invest capital to repair railroad-owned 40 foot box cars, covered hopper cars, or other equipment if those cars were assigned to your use?
- (7) Has your company or industry made any projections of future needs for covered hopper equipment or any other special types which are currently in short supply? What are your views on the covered hopper car and its future transportation capabilities?
- (8) What do you foresee as the short-range opportunities in multi-modal or intermodal operations, i.e., TOFC expansion, substituted service, etc.?
- (9) Do you have any other realistic and practical proposals to ease the current problem over the short term?

I believe the national freight car shortage is due to a number of reasons including the lack of motive power, deterioration of physical plant, a slow down in car repair and maintenance programs, a general decline in the total number of serviceable and suitable freight cars, and importantly, the subject of Productivity in the movement of freight cars from point of loading through unloading and placement at another shipper's platform for another load.

For the last several months, and indeed, for as many years as I can remember, the League has been involved with the subject of freight car utilization and freight car shortages. On April 12, the League wrote to Mr. Joel Burns, Director of the ICC's Bureau of Operations. The letter said that the League had, in the past, suggested various methods to prevent or ease car shortages, including: (1) a nationwide free running pool of freight cars; (2) per diem rates adequate to encourage and justify car ownerships; and, (3) improved tax provisions for depreciation, obsolescence, and investment credit. The April 12 letter also made the following proposals: (1) prescribe and enforce performance standards and penalties against railroads for not moving either loaded or empty cars when failure to do so contributes to a car shortage; (2) impose a condition similar to that imposed in Ex Parte No. 305 that would require the railroads to keep an accounting of the revenue obtained by the railroads under Service Order 1315; and, (3) exclude the provision in Service Order 1315 that requires two credits to offset one debit and reinstate all existing provisions for average agreement.

On April 19 the League again wrote Director Burns. That letter made three points: (1) Where practicable, the Commission should consider giving shippers more advance notice of car service orders; (2) The ICC should weigh the full impact of its car service orders on the entire transportation industry

and the nation; and, (3) The ICC might wish to consider designating a portion of a future railroad general rate increase for the express purpose of repairing cars.

Also, the letter addressed one of the possible origins of the current and chronic car shortages. The League raised the question of whether some of the problem might be caused by an excessively high bad order ratio on some lines. We suggested that, if this is the case, the Commission might wish to consider steps to encourage railroads to reduce their bad order ratios. Not only would this help the shipping public, but it would also give the railroads themselves more revenue-producing equipment.

On May 2, the League again wrote to Director Burns reiterating several of the points made in earlier letters. The League relayed to the ICC some League members' concern that, although receivers endeavor to promptly unload cars, the cars are not always moved by the railroads and, on occasion, are left on adjacent tracks for reasons unknown to the receiver who promptly unloaded the car.

On June 20, I wrote to the Presidents and Chief Executive Officers of the nation's Class I Railroads and said, "Frankly, reports from shippers and receivers across the country indicate that the problems of car supply and service are worsening. These situations are of great concern to me. As President of The National Industrial Traffic League, I want to strongly reaffirm my complete dedication to opening the lines of communication between the shipping public and carriers." I then asked each of them to tell me what their railroad was planning to do both short range and long range to resolve the freight car supply and railroad service problems.

In my opinion this input on what the railroads are doing will be extremely helpful to the League and shippers generally as we proceed with long range solutions or recommendations with respect to car supply and car utilization.

The League has also been active in many other areas in an attempt to assure the nation's shippers of an adequate car supply. The League supported the financial provisions in the 3R and 4R Acts to assist the railroad industry in overcoming its car supply problems. League representatives serve on the Freight Car Utilization Research-Demonstration Program, along with railroad, labor, government, and other industry representatives. The League has participated in many ICC proceedings intended to ease car shortages, including Ex Parte No. 241; Ex Parte No. 252 (Sub-No. 1); Ex Parte No. 252 (Sub-No. 2); and, Ex Parte No. 334. The League, and the nation's shippers, supported the use of an automatic car location system and the use of ACI labels, in particular. And finally, the League is now working with the AAR and Southern Railway on two publications designed to reduce the number of damaged cars and to insure clean cars for loading.

On July 7, 1978, the League, in cooperation with the Southern Railway, sent information to its entire membership outlining the need for shipper cooperation in cleaning freight cars after unloading. Two documents were mailed to League members, a large poster which was to be placed on the bulletin board or other area, and a folder explaining what the problem is and what shippers can do to help solve it. In the communication to the League members, I said, "Let the League again demonstrate its sincerity and dedication in cooperative efforts to resolve the problem of dirty, unusable freight cars. The

current car supply shortages drive home the point that every car counts. But even in the best of times, shippers and receivers have an obligation to leave cars in clean, usable condition. Cooperation is the key. I call upon all League members to join in this program."

As I previously indicated, the League on June 23 sent a circular to all its members asking for comments on the deterioration of rail service and the car shortage to assist League officers in further presentations to the Interstate Commerce Commission, the railroad industry, the Federal Railroad Administration, and Congressional committees. Since that time, a great number of responses have been received by the League from its members. In the near future, the League will be making recommendations as to how its members believe the national freight car shortage, car utilization and car identification problems should be solved and we will be pleased to make this information available to this Subcommittee.

AUTOMATIC CAR IDENTIFICATION SYSTEM

Over the years, the nation's railroads have moved ahead in efforts to improve car utilization and they have taken advantage of technological developments for car location and identification of equipment. However, last November the railroad industry announced that it was cancelling an automatic car identification system that had been in effect since 1966. This system might not have been the best, but it was a system that both the railroads and the shippers had expended a considerable amount of money to develop. Unfortunately, the railroad industry was unable to offer a substitute for the system.

The League also has a policy (G-3) with respect to car location information. It reads:

The shipper being dependent upon carrier performance is entitled to continued assurance of the progress of the movement. Car location information has historically been an accepted service to shippers according to need. The shippers' right to such information should not be affected by the mechanics used in supplying information or technological advances. In view of the AAR approval of the proposal to establish a national car information and control system, it will be the responsibility of NCICS to provide and initiate, at their expense, a car location data transmission once a day with additional requests to be initiated by shipper.

The League's Data and Computer Systems Committee has recommended the following change in language to the above policy:

The shipper being dependent upon carrier performance is entitled to continued assurance of the progress of the movement. Car location information has historically been an accepted service to shippers according to need. The shipper's right to such information should not be affected by the mechanics used in supplying information or technological advances.

The National Industrial Traffic League, being concerned about the increasing cost of communicating information between shippers and carriers which ultimately has an inflationary effect on the price of goods and services, desires to work with the carrier community in developing more efficient and economical communication methods, particularly as they apply to car location messages. This should include, as soon as possible, the development of and adherence to standard procedures, formats and communications protocol allowing data to be exchanged via communication lines over which users have some control of the costs, such as WATS lines.

It will be the responsibility of the railroad to provide and initiate, at their expense, a car location data transmission once a day when using communications methods or services over which the shipper has no control.

This recommendation will be presented to the membership for approval at the League's 1978 Annual Meeting.

Currently, the Interstate Commerce Commission has before it a proceeding Docket No. 37600, regarding an investigation for the need for regulations governing the use of automatic car identification systems. On July 7, the League submitted to the Commission a petition and comments seeking broadening of the requested rulemaking proceeding. In its filing, the League urged the Commission to broaden the instant proceeding to include an investigation of the need for an adequate and reliable automatic car identification system for the nation's railroads.

The League also made it clear in its comments to the Commission that it was not chastising the nation's railroads, but that it was seeking to make genuine contributions to resolving the problem of rail car supply and rail car service, including rail car utilization. It was for that purpose that the League sought a broadening of the instant proceeding to embrace all automatic car identification systems, actual or potential, as possible means of making a substantial contribution to improving rail car supply, rail car service, and rail car utilization.

The League's petition for the requested relief was filed without necessarily supporting or opposing any particular automatic car identification system. The League reserved the right to make its ultimate judgment and in that regard based upon the matters developed in the record under the proposed rule-making and upon information otherwise obtained by the League.

The League does support an automatic car identification system. We are hopeful that the current ICC proceeding will provide shippers and carriers an opportunity to assist in the development of such a system. The appropriate League committees involved with car location, car identification, and car supply, have made a recommendation to the League membership. The outstanding recommendation provides:

1. That the Interstate Commerce Commission should hold in abeyance the AAR change to Rule 88, that allows the discontinuance of car labeling for automatic car identification purposes until a complete and thorough investigation of the impact and effects of that rule change on the shipping public can be ascertained.
2. That the Interstate Commerce Commission should insure 100% participation in and use of automatic car identification by AAR participating U.S. railroads so that a full and accurate assessment of the system can be accomplished.

CONCLUSION

Mr. Chairman, the League, as you can see, is greatly concerned about the nation's freight car utilization problem, the national car shortage, reestablishment of some type of an automatic car identification system and related matters. In my testimony today I have offered numerous examples of League activity in these areas as well as possible avenues to pursue to achieve desired solutions to the problem.

The League believes the answer to these problems lies in a cooperative working arrangement between the rail industry, shippers and involved government agencies. Extraneous efforts to prematurely revise the 4R Act should be put aside at this time, and full attention paid to the critical freight car

situation. At the appropriate time, we would welcome an opportunity to provide extensive views on these other issues. The League and its members will be pleased to work with this subcommittee, the Congress, the Interstate Commerce Commission, the Federal Railroad Administration and the Association of American Railroads in shaping solutions acceptable to both carriers and shippers in regard to the national freight car utilization problem. We have endeavored to work closely with both government and industry in the past on these matters and will continue to offer our strong cooperation and support for reasonable and fair solutions to these most important issues.

Thank you, Mr. Chairman, for allowing me to present the League's views at today's hearings. My colleagues and I would be pleased to answer any questions which you, the subcommittee or the staff may have for us.

Mr. ROONEY. Thank you very much.

You say that market dominance should be given a chance. We gave that margin in the 4-R Act and it has expired. Very few of the railroads asked for the 7-percent yo-yo because they could not meet the criteria. Since it was not used, in my opinion, I think it was a complete failure. What should we do now to give railroads relief so they can make a reasonable return on investment?

Mr. MORTON. May I go one way first, sir? Public Law 94-210 and in our testimony we have said and we believe that the 2-year sunset provision has run its course, but I made the statement primarily on the basis of what Mr. Dempsey said the other day as an attempt to revive it, and I am not sure that we, in the league, say it needs to be revived.

Mr. ROONEY. I believe the Administration said it should be revived.

Mr. MORTON. Yes; I agree there, sir.

Mr. ROONEY. You mentioned published service standards several times in your testimony. Do any railroads offer any sort of service standards now that would serve as a model to what you suggest?

Mr. MORTON. Mr. Chairman, at the present time, when you say "now," the freight car service problem is not only in the Northeast. We don't have to speak of just ConRail; it is all over the United States, and both Mr. Bartley and I are literally flooded with telephone calls. We are having more telephone calls from league members today, and they can be in Los Angeles, they can be in Seattle, they can be in New Orleans; you name the city.

The breakdown of service seems to be total in the United States. In my 40 years, this is the first time I have seen the thing happen.

Now you ask if there are several model services. There are several railroads that are giving excellent service. I better take my league hat off.

Let's take the Southern Railway, for instance. They are doing just about what they say they are doing. Santa Fe, from Chicago to the west coast. Southern Pacific is doing an excellent job. Missouri-Pacific. The little railroads are in trouble, but the D. & H. gives us a good service. We ship a great deal over the D. & H., but the fact remains that they give us good service. I am speaking for Combustion Engineering, sir. They go back to a model.

I think that Santa Fe has advertised at times, and I think they stay pretty close to it.

Mr. ROONEY. The gentleman from Illinois is recognized.

Mr. MADIGAN. Thank you, Mr. Chairman.

Mr. Morton, I know that you know more about supply and demand than I do and you know a whole lot more about the free enterprise and the pricing of things, all those kinds of things, because I understand and recognize you as a very successful and accomplished businessman. The waterway industry, the commercial barge traffic eliminates any criticism of their industry as far as a backlog of demand is concerned by raising their prices at some times during the year in my State where prices might be 300 percent higher than they are at other times. That tends to eliminate the demand of the commercial barges and it tends to increase the demand for railroad cars.

If anything that you can think of is very much in demand, the price that you can reasonably expect to pay for it is going to be at the fullest price, whether that is a new type of hair coloring for your wife and my wife or a particular model of an automobile that experiences a popular and immediate acceptance. All of those things are going to be priced full price and that is what you are going to pay, but if the demand for them is not so great there is a possibility that you are going to be able to negotiate.

You, as an advocate of this free enterprise system—and, parenthetically, let me say I am an advocate of it also—you seem to think that the railroads ought not to be able to price themselves the way that everybody else does.

If I follow what you say, you suggest that they should not be able to raise their rates even though they are very much in demand and even though anybody in just about any other business can do that.

Can you explain to me why they should be singled out for a different kind of treatment, especially when they are an industry that makes a lesser percentage of profit than anything else?

Mr. MORTON. Mr. Madigan, I didn't want to convey that I think that they should be singled out in any other manner. I feel that they should be permitted a fair return.

Mr. MADIGAN. Is 2 percent a fair return?

Mr. MORTON. Looking at the industry, Mr. Madigan, I say 2 percent is not a fair return. But then let's look at the Wall Street Journal this morning where Southern Railroad had the highest net that they have had in their history, and there are other carriers that are.

I am going to say a harsh word. You have got to look at management. There are well-managed railroads in the country, and if you look at those railroads, aren't they making a pretty fair return?

Mr. MADIGAN. Some, I am sure. Perhaps you can enlighten me. I am under the impression that Southern has less of a problem with waterway competition than ConRail; is that true?

Mr. MORTON. Up to a point, but there is an awful lot of coal business. I understand there is a great deal of coal starting to move on our inland water system because there is no competition.

Mr. MADIGAN. Why should the amount of money that a railroad can charge for the profit that a railroad can make be limited to what you would define as being the fair return when there is no such restriction like that on your business and when, I assume, that you could reasonably be expected to resist such a restriction?

Mr. MORTON. Well, if you are referring to my statement that I feel that the Interstate Commerce Commission is doing a fairly representable job in the matter——

Mr. MADIGAN. Excuse me. Did you say reprehensible?

Mr. MORTON. No, sir. Representable.

Mr. MADIGAN. I see.

Mr. MORTON. Of the railroad industry. I feel it is similar to what Mr. O'Neal has said here this afternoon, and I believe in many of the statements that he has made regarding railroad rates that there are some rates that are above what I would term or you would term as a normal businessman a fair return, and there are other rates that are below and which the higher rates are carrying.

I also believe that is the continual increase, and I want you to also look carefully at what the league has said in the ex parte increases at the Commission. At times we may have been labeled as always opposing, but I think if you read carefully what we have said to the Commission—and Counsel Donelan here has phrased those petitions to the Commission—that we have advocated that if the Commission says it is a fair return, we are not opposed to it.

We also have our economist and John Ollweiler here from our Railroad Rates and Practices Committee, and his committee gives us input.

I want to say that they are not opposing ex parte increases as such, but, Mr. Madigan, I believe that a point is reached here with the continuous upward swing of railroad rates, it is probably going to continue and we are going to have inflation and everything else that goes with it.

I also believe that individual rates need to be looked at and I know that there are thousands of commodities shipped in the United States, but if each one of those commodities are moving at a rate of return that the railroad industry feels a good rate of return, then the railroad industry is not going to be at 1 or 2 percent.

I also feel that the railroad industry has got to take a look at themselves—and I am talking with my other hat; Combustion Engineering—and that is the fact that they need good management; they need good operating principles.

Mr. MADIGAN. Well, it seems to me that we require something of them that we don't require of other people. We require them to have good operating principles and good management within the framework of what someone else judges to be a reasonable rate of return. They don't require that in the barge industry and they don't require that in combustion engineering.

I don't doubt for a moment that yours is a very well-known company, but if somebody would impose upon your company a series of regulations that would limit what you could do and what you could not do and how much money you could make, the spirit would not be there, would it?

If the railroads were free to charge whatever they wanted to charge and those charges became what you consider to be excessive to your company, you would find another way to move your freight.

Mr. MORTON. Yes, sir.

Mr. MADIGAN. You would have people in your own organization that would sit down and figure out at what point it would become economical perhaps for you to buy your own tractor-trailers and hire your own drivers.

Mr. MORTON. Yes, sir. We have already done that, Mr. Madigan, and I am sorry to say that there is a lot of diversion of tonnage that can be moved by more economics than you can move on the railroads.

I think you are aware of the type carrier in the United States.

Mr. MADIGAN. Thank you very much.

Thank you, Mr. Chairman.

Mr. ROONEY. Thank you, gentlemen.

One question I do want to ask you. You mentioned the system, ACI, and I am wondering can ACI be a viable operation without all railroads participating?

Mr. MORTON. Chairman Rooney, I have Mr. Guterman, chairman of our league's subcommittee on car location messages. May I call on him to answer that question?

Mr. ROONEY. Yes.

Mr. MORTON. This is Fred Guterman, chairman of the league subcommittee on car location messages.

Mr. GUTERMAN. Good afternoon.

Mr. Chairman, we don't believe that the ACI system can be measured adequately without all railroads participating. We really are concerned that the larger and more profitable roads that have declined to participate are placing an unfair burden on the roads that are in fact participating and the measurements of those roads then are biased and not significantly and adequately presented to the industry.

I believe that answers that portion of the question. There are many concerns that these shippers have about the decisions of ACI.

Mr. ROONEY. Thank you very much, gentlemen. I appreciate your appearance.

Mr. MORTON. May I make one more comment to Mr. Madigan?

Mr. ROONEY. Surely.

Mr. MORTON. I think one thing on that—and I am thinking of a situation in combustion engineering right at the present time, and that involves a railroad that, in many cases, can become a monopoly.

As you know, there is no comparison between the Northeast rail situation and the Midwest. I think we all agree to that. Both are entirely different decks of cards.

I have a situation in Oshkosh, Wis., between Milwaukee and the Chicago Northwestern Railroad. On the Midwest program, as you know, very careful looks are being taken by all of the Midwest carriers—the Rock, the Illinois Central, Gulf, the C. & W., and the Milwaukee, and soon—about cutting out this parallel mileage; two railroads serving a town such as Oshkosh.

The Milwaukee Railroad has announced they are going to pull out of Oshkosh. That is going to leave Oshkosh with one railroad, the C. & W. I feel that competition is eliminated. We may find ourselves, the shippers, very much at the mercy of the carrier to jack those rates in anyway that he sees fit, and that is another reason why I came back to that subject to clarify it.

Mr. MADIGAN. If I can pursue that.

I am not arguing with you; I am trying to learn.

If that would happen and if the rates of that railroad become excessive, there is nothing in the world that is going to stop them from providing all the means of transportation; it will not be an alternate means of rail transportation, isn't that right?

Mr. MORTON. Yes.

Mr. MADIGAN. So there is always that awareness on the part of that one remaining railroad, like the Arabs with the price of oil. They can raise it up, but they are not going to raise it so high that it becomes economic for us to gasify coal and make solvents or something like that. That is always going to control the price of oil.

The price of that railroad is always going to be controlled by the amount invested to get customers.

Thank you.

Mr. DONELAN. If I could just have the Chairman's permission.

Under the 4-R Act in the situation described where there was effective competition the railroads are not impeded in raising their rates by the ICC now, but on the other hand, if there is a continuing monopoly of the situation the shipper is in a very difficult position.

I might say two other things. One: I think that there was a widespread misimpression that the ICC is right and left interfering with the raising of rates by railroads. I simply do not believe that is a fact.

Second, as a result of the 4-R Act—and I say this not in criticism—but when a shipper now seeks to obtain a suspension of a rate on the grounds that it is too high in addition to meeting the requirements on market dominance, he has to file a verified, a notarized, under-oath complaint, No. 1, that he will be substantially injured, and No. 2, that he is likely to prevail on the merits.

As an active transportation counsel, in my judgment that has operated to reduce very sharply the number of efforts on the part of the shipping public to suspend railroad rates.

Now it might be appropriate, if we can bear on your time for one more minute, if I could ask Mr. Ollweiller, who lives in the firing line every day with respect to this monopolization where you, as a shipper, are concerned with the railroad. I think it might help in responding to the very proper questions of the Congressman.

Mr. OLLWEILLER. In my particular cause we are involved in natural resources, so an act of God centuries ago began a location and we are tied to a railroad system which was determined by government fiat in the granting of rights-of-way years ago and we are in many monopoly situations where we have one railroad serving us to hell and back away from our marketplace.

Quite frequently an alternative is not available; we don't have rivers up in the middle of the Rocky Mountains to transport the heavy material. We are talking about by trucking, which is virtually impossible for long distances, so our lifeline is the railroad system.

Those are the types of situations where the market dominance comes into play, because we are vulnerable to a pricing structure by the railroads that could literally price us to the point where we could be forced out of business.

Mr. MADIGAN. But if you are in the Rocky Mountains and not connected to your markets by waterways or supported by highways, the market dominance, as I understand, might be pretty self-evident. But there would be other areas where it would not be quite so self-evident, so obvious the railroad has the dominance.

As I understand the provision, the railroad has to show that they do not have market dominance and they do not have access to the reference of the shippers. So the effect by the way of structure is controlled because we are requiring the railroads to show something that it is difficult not to involve versus the market dominance upon the shippers.

It would seem to me that it would be much more favorable.

Mr. DONELAN. Well, I have a feeling that a court decision is probably going to be necessary to really clarify this matter good and prudent, but I can tell you, Mr. Madigan, that from the point of view of particular shippers grappling with this issue of market dominance, it is often very difficult for us, particularly confronted with the antitrust laws, to find out the overall picture. Market dominance and requirements of market dominance are very operative, and I think at a very minimum that more time should elapse, as was suggested by Mr. Morton, before we start tinkering with the market dominance provision.

I would also say further, and I commend to you, Mr. Madigan, the decision by the U.S. Court of Appeals for the District of Columbia which reviewed the ICC market dominance except one narrow area. They found that the ICC had complied with your law and they recognized that the ICC is in a very healthy way.

It said, now look, this is not all in concrete; we are going to live with experience and modify if experience suggests modification. So that I think it fair to state that the shippers object to the attempt at this time to remove this ultimate protection against monopoly power, whether it is in yo-yo or anywhere else.

Mr. ROONEY. Thank you, gentlemen. We appreciate your being here today.

Mr. MORTON. Thank you, Mr. Chairman.

Mr. ROONEY. Our next witnesses will be a panel: Mr. Robert L. Kessler, executive director of the Western Coal Transportation Association; Mr. J. H. Burdakin, president of Grand Trunk Western Railroad; Mr. Gary B. Root, general manager, transportation and distribution, Amax Coal Co.; and Mr. David J. Collins, president of the Computer Identities Corp.

STATEMENT OF ROBERT L. KESSLER, EXECUTIVE DIRECTOR AND GENERAL COUNSEL, WESTERN COAL TRANSPORTATION ASSOCIATION

Mr. KESSLER. Mr. Chairman, my name is Robert Kessler.

Since you gave my name first, I will lead off and run toward the airline.

I am Robert Kessler, executive director of Western Coal Transportation Association. We thank you very much for the invitation to appear before this distinguished subcommittee today to give you some views and to give you some intelligence that the other witnesses have afforded to the committee and to us.

The association is 4 years old—at least it will be 4 years in September—an association of some 20 utility companies and 23 coal-producing companies in the Western United States that is producing coal that is found in the West, found in the area that Mr. Madigan saw was probably obviously a market dominance situation.

Our membership is involved in the production movement and consumption of some 50 million tons of coal per year at the present time, and this rate is expected to move up to 150 million tons in 1982. The members of the association supply some two-thirds, roughly, of the estimated 30,000 railcars used to move that coal. We are trying to help ourselves as well as help the railroads as best we can.

It is clear from the testimony already given and the remarks of some of the members of the subcommittee, including Mr. Madigan, that the committee is well aware that the movement and the development of coal in the Western United States is rather transportation sensitive, and this of course is the reason for the existence of the association. We are trying our best to see what we can do, frankly, other than through litigation and the like to form an atmosphere within which we can supply the capital under certain provisions of the 4-R Act and otherwise to buy the cars where it is necessary to assist the folks who are in the transportation services business to in fact give us those services that we desperately need.

As probably the members of this committee and this particular House of the Congress is very sensitive to, when you get close to home as you do, boy, every couple years you have to go out there and get on the list and fact those folks as you do in between times, and you know, one on one, what facing those consumers can be.

Our utility members go before the public utilities commissions of the States and they have those rate cases right down there, not back here, not some ways away from home; right down there amongst all of the folks that live there, and they say we have got to raise the rates in part because we have got to buy more cars and they don't always get that.

They hardly anymore, in my judgment, get those passthroughs that used to be spoken about. There are full hearings now and the cost of those cars is not necessarily, at least in Colorado and several other States, considered at all a part of the cost of the energy and it is not passed through at that stage. It awaits the rather full-blown rate hearing some other time, so you see the pinches that are involved here.

I would like to cut my testimony short, but ask that the committee take the full statement and its comments into the record.

Mr. ROONEY. What is the timetable here for all of you gentlemen?

Would 5 minutes be adequate?

Mr. KESSLER. Yes.

I will give you the car situation that is difficult and the belief that ACI, among other management tools—we have some assistance to finding cars, the great car mystery of where the cars are.

I used to testify here when I was chief counsel for the Railroad Administration on the same subjects, so I fit in the same bill with your committee members.

We have the opportunities these days to work with the coal producing company that, as I say in my statement, needs 17 cars twice a week through the end of this month to move a total of about 10,000 metric tons of coal to a foreign buyer. If we move it, we get a big contract and so does the railroad. They can't find the cars. It means that 800,000 ton movement per year or we lose it to other interests.

In fact, Australia, on the unitrain side, the opposite side—we have one utility that told us just last week, one member told us about the situation he has encountered where he was told how many hours of turnaround time. We have heard this before in the grain shipment and other turnaround time to move coal from mine to utility and back again, get that set of cars back, 110 cars. If they all move that way and are bad ordered somewhere, that turnaround time has more than doubled and the turnaround time given to them, that is the utility by the railroads for the purpose of calculating how many cars the utility will buy—not the railroad, the utility will buy—in practice, this is double.

What is the consequence of that? The consequence is that the utility goes out and buys another train set or two, as I have said in my statement, \$35,000 a car, 121 cars.

Why is that? Where are those cars? What is going on on that route?

I ask that question in fear that you might ask me what we have asked the railroads, and they don't know many times.

It is our thought that this committee might urge the real movement toward management system including such things as ACI to help locate those cars, find out where they are in real time so that we can get them maintained. We pay for that; we can get them maintained back in service.

I have gone further in my statement in respect to the surveys we have taken among our members to a degree to find out to get this information. We are not pointing fingers; we just believe that neither we nor the railroads know in fact what is happening over those thousands of miles to take out the cars that started off as a 110-car train and wound up with the utility as a 95-car train with, 10 to 15 cars missing time after time. A unit train, a very simple operation.

I think I will close with that. But to emphasize that any real time management system that can help us with information to know where these things are will help us join together with the railroads to find out how we can get better utilization out of these cars that we buy, for the most part. We really need the help.

Thank you, Mr. Chairman. I will fade out, then.

[Mr. Kessler's prepared statement follows:]

STATEMENT OF ROBERT LEE KESSLER, EXECUTIVE DIRECTOR AND GENERAL COUNSEL,
WESTERN COAL TRANSPORTATION ASSOCIATION

Good morning, Mr. Chairman.

The Western Coal Transportation Association is indeed privileged to appear before this distinguished subcommittee through its Executive Director and General Counsel to discuss the subjects of Freight Car Utilization and National Car Shortage. We particularly thank Chairman Rooney for his invitation to present some of our views on these subjects as they impact the very critical movement of coal in the Western United States.

The Western Coal Transportation Association will celebrate its fourth anniversary at our annual meeting in Denver September 12-14, 1978. The Association is currently comprised of 43 corporate members. Twenty of these members are utility companies and 23 are coal producing companies. Our membership is involved in the production, movement and consumption of some 50 million tons of coal per year presently with this rate expected to reach 150 million tons in 1982. We supply two-thirds of the estimated 30,000 rail cars used in this movement while the railroads supply the rest.

It is not news to this subcommittee, or indeed to the full Committee on Interstate and Foreign Commerce, that the economics of the development of coal in the Western United States is transportation sensitive. This then, is the basis for the existence of the Association. One of the prime purposes and objectives of the Association is to assist all modes of transportation through mutual cooperation and the exchange of ideas and knowledge to assure that adequate transportation facilities and equipment will be available for the transportation of western coal.

Since the time available in hearing before this subcommittee is somewhat limited, I will contain my remarks to a few examples of the impact of the current national freight car situation on the movement of western coal and the benefits that could be derived by the proper utilization of an automatic car identification system I would be delighted, however, to file for the record any additional information or views that any member of the subcommittee should desire.

In the past several months, I have been engaged personally in assisting a coal producing company in attempting to move coal to a seaport and thence to another country. This movement is an experimental one to test the quality of the coal, the capability of the coal producer to mine sufficient quantities within a specified time and the capability of the railroad system to move the coal within that time. Both the rail carrier and the coal producer know, that should we be successful in meeting these tests, a long term contract for the sale of this coal requiring unit train quantities will be the prize. No other rail carrier would be able to handle this movement because of the location of the mine. So, you see there is great incentive for all of the parties involved to do everything that is lawful and proper and in their power to handle this job. The benefits in employment and balance of trade also meet national goals and objectives.

We have the need for the placement of 17-100 tons (capacity) coal cars essentially twice per week for two months. Notwithstanding all of the incentives involved, and the extraordinary hard work provided by a very fine railroad company, its ability to supply this small number of cars at the given times has been marginal at best. The location of available equipment is probably one of the most difficult problems in coal car supply today. It is, as I visit with you right now, questionable as to whether we will be able to get the equipment in time to compete with a third country's ability to get the contract. We have been told on several occasions that no cars (or only a few, or smaller cars) are available for our loading, and then, through some special personal effort, cars were found by manual spotting. I must add that the railroad has had no problem supplying crews and motive power. How nice it would be if all of these cars were capable of being located and identified as to capacity and availability quickly enough to be able to be moved to our loading facility in time.

At the other end of the spectrum in coal car usage is the experience of one of our utility members with a unit train operation. One of the bases for the calculation of the required number of train sets to be supplied by the utility is the turn around time for the unit train operation. That is, the time it takes the carrier to return the unit train to the mine for another load. Under the terms of most published unit train tariffs, the burden is upon the car supplier to provide a certain number of cars (and spares) to accomplish the movement of a specified amount of coal over time. The turn around time for this utility, in the last year has *doubled* causing it, on relatively short notice, to provide twice the number of cars. In this case, more than an additional train set. Cars run from \$30-35,000 per copy with 110 plus 11 spares commonly required for a unit train set. This is a great extra burden on the utility and its rate payers.

A recent survey conducted by our operations committee found that of those member presently engaged in unit train movement of coal, 75 percent have experienced worse turn around times than originally cited by the carrier during negotiations on tariff proposals. Of those, 61 percent of the operating problems have occurred en route from mine to destination. Further, in many instances the mine load sheets have not corresponded with delivery sheets at destination point. This is often caused by the "bad ordering" of cars and the removal of those cars from the train consistently. In eight out of nine instances, the railroad has not notified the consignee or consignor promptly when a car has, for some reason, been removed

from the train. At the end of this long story is the simple conclusion that the lack of expeditiously conveyed detailed information as to car location, condition, availability and spares requires the inordinate expenditure of funds to relieve the problem when a management system built through accurate and swift data reduction and recovery might very well *avoid* the problem.

An automatic car identification system, fully implemented, could clearly supply the data needed here. The Western Coal Transportation Association respectfully recommends that a study of the operations of a typical unit train be undertaken under the auspices of the Office of Technology Assessment to assess the causes of delays in unit train movement and its ripple effect on car supply as well as to evaluate, under field conditions, the effect of the use of a label/optical scanner automatic car identification system on the efficiency of the unit train operation. Automatic car identification systems are used by many members of this Association and the full cooperation of the members is offered for such a study.

Other data essential to the proper management of the unit train technology includes accurate mileage information. Some State and local taxes are based upon the mileage traveled within the jurisdiction by the rail car. On the industry side, the "ounce of prevention" axiom is the guide for the preventative maintenance program instituted by the utilities for their cars. A properly designed program will also meet the requirements of the Federal Railroad Administration (FRA) equipment safety standards. The basis for the FRA safety standards and our maintenance programs is mileage and time. It is imperative that the utility receive timely and accurate mileage data to schedule inspections as well as replacement of wheels, axles, bearings, couplers and other components. The critical financial judgments as to when to pull a whole train set for maintenance and when to purchase new sets are dependant on the mileage seen by these cars each year. Since the unit train technology is relatively new for coal over long distances, there is no real experience that can guide us on the effect of the intensive service of these operations on the cars. We commend the FRA, car suppliers, the Association of American Railroads and this committee for their joint efforts to address some of these problems through the FAST project being carried out at the Transportation Test Center at Pueblo, Colo.

Because of the financial plight of the railroads, recognized by the congress in the passage of the 4-R Act, the utilities, also regulated companies, have had to purchase coal cars by the thousands to help insure the transportation of their coal. The companies are new to transportation and have an additional need for information systems such as ACI to carry out their responsibilities to their rate payers and the State Public Utilities Commissions to keep close management control over the expenditures and operations of their train movements. Only real time retrieval of the type of data we have spoken about this morning will enable them to meet these responsibilities.

Adverting back to the now renowned (at least in legal circles) 4-R Act, we should all remember that the purpose of the Act was to rehabilitate the railway system in order to provide a higher degree of effectiveness, economy and efficiency in rail transportation services. It is further the Association's view that the first policy declaration of the Congress in the 4-R Act is the most important one. That is to balance the needs of carriers, shippers and the public. A viable and efficient railroad transportation system is, as I said at the outset of my statement, absolutely critical to the Western coal economy. The Association feels so strongly about the incorporation of modern technological advances as automatic car identification systems into the rail transportation of western coal that it has joined in the petition requesting that the Interstate Commerce Commission institute a rule making proceeding (No. 36,700) requiring the continuation and maintenance of the system originally instituted by the AAR under its interchange rules. I have attached a copy of our comments to the ICC in docket 36,700 to this statement for your further information and request that it be placed in the record. We have also joined in the review case before the United States Court of Appeals for the District of Columbia Circuit which is currently entertaining review of the Commission's refusal to even hold a hearing.

To refuse to continue to use such advances in the railroad industry which needs the revitalization suggested in the name of the 4-R Act is an exacerbation of the current National Car Shortage and is counterproductive in the drive toward efficient Freight Car Utilization.

That concludes my prepared statement and I would be very happy to answer any questions the members of the subcommittee may have of me and supply for the record any additional material requested.

BEFORE THE INTERSTATE COMMERCE COMMISSION

In the Matter of: Petition of Computer Identics Corp. requesting institution of rulemaking proceedings—Docket No. 36700.

COMMENTS OF THE WESTERN COAL TRANSPORTATION ASSOCIATION IN SUPPORT OF THE PETITION

The Western Coal Transportation Association (WCTA) hereby submits its comments in support of the Petition of Computer Identics Corporation (CI) requesting the institution of a rulemaking proceeding in respect to Automated Car Location systems.

The WCTA is an association of over forty producers and consumers (utilities) of coal originating in the states west of the Mississippi River. One of the WCTA's four major purposes and objectives is "... to assure that adequate transportation facilities and equipment will be available for the transportation of Western Coal."

Among the transportation facilities and equipment in which the members of the WCTA have invested are automated car location systems. A critical component of such systems is the automatic car identification label. It is clear that a standard car location system, fully implemented throughout the railroad industry would increase car utilization dramatically and therefore accrue values and benefits in the billions of dollars to the railroad industry, the shipping community and the consumer public. Of the systems presently available, those which are not encumbered by the need for manual observation and its inherent "human error" are in greatest use and hold the greatest promise for high efficiency in car location.

The railroad industry through the Association of American Railroads (AAR) adopted a rule, ten years ago, requiring the equipping of cars with automatic car identification labels. This rule is contained within the AAR interchange rules. As the Commission knows, ease of interchange between railroad companies is at the heart of the operations of the railroad industry in this country.

Although the cited AAR rule has been in effect for ten years and notwithstanding an investment of over \$100 million in the system the failure to enforce the rule has kept the system from reaching its full potential. Further, the WCTA is advised that the AAR is presently considering the rescission of this rule.

While the WCTA supports the principle of industry self regulation (by the AAR here), it cannot stand by silently when such self regulation will directly and adversely affect the operations and investment of the members of the WCTA without opportunity for presentation of their views in an impartial forum.

According to the 1977 edition of the "Yearbook of Railroad Facts" (an AAR publication) car companies and shippers owned some twenty percent (20 percent) of the total freight cars in railroad service at the end of 1976. This includes cars owned by the members of the WCTA. Additionally, the railroad companies have been encouraging the shippers to build and own more freight cars.

When such substantial ownership of cars and investment in automatic car identification systems can be seriously affected by an action of the AAR it is the view of the WCTA that a forum must be made available to the shipping and consuming public by the Interstate Commerce Commission. A rulemaking proceeding as proposed in the CI petition is an appropriate forum within which the WCTA and its members could present evidence that would support the promulgation of a permanent rule to the same effect as the cited AAR rule.

The WCTA also supports the CI request for an interim order of the Commission requiring the continued requirement of the terms of AAR Rule 88, section A.9 pending completion of the rulemaking process.

Respectfully submitted.

ROBERT LEE KESSLER,

Executive Director, Western Coal Transportation Association.

Mr. ROONEY. Thank you, Mr. Kessler.

Now, whatever you gentlemen will prefer.

STATEMENT OF JOHN H. BURDAKIN, PRESIDENT, GRAND TRUNK WESTERN RAILROAD CO.

Mr. BURDAKIN. Mr. Chairman, I am John Burdakin, president of the Grand Trunk Western Railroad Co.

Mr. Chairman, I welcome the opportunity to be able to come here as probably the outstanding user of automatic car identifica-

tion in the United States, and I would like to relate a little bit of my experience about it and why I am such an advocate that this is a technique and a technology that this industry should just not give up. As I indicated, we do have our complete railroad oriented toward this system. It is just about becoming completely live and online at the time when the railroads of the United States took action to kill the mandatory labeling of equipment.

Just to make sure I will try to keep this as brief as I can and still cover the points, what we are talking about is a system that has something on the side of a piece of rolling stock and a wayside unit that can read that gismo, that label, that magnetic block or whatever it may be that is going by. If we have such a system—and in today's world that means it is integrated into a computer—we can, through various techniques, simply determine which direction that car is moving. We can determine the time that it is moving; we can determine the characteristics of that car, and if the proper waybill information has been put in we can determine the loading characteristics, whether it is dangerous, explosive, high and wide.

We also can determine the cars that are ahead of it and the locomotive that is pulling it. We have all of the information that is possible if we can get such a system. We have all of that information in a real time right now when it happens on the ground being fed into the computer and from there it can come back to us either automatically or we can program it to come back or it can come back upon recall.

Now, obviously, that type system requires that a car be suitably equipped so that the wayside or fixed reader can identify that car. It requires that each unit of rolling stock must be properly equipped for without it, of course, the maximum readability is immediately deteriorated to that percentage of cars are labeled and are readable.

The railroad industry started 10 years ahead of the other industries of the United States exploring the concept of automatic card identification, and through experimentation they tried various systems. They tested them; they came up with what we now call the multicolored reflectorized label.

Although there was a mandatory requirement that every car be equipped in the United States, some railroads did not completely support it. There were problems in trying to maintain these labels, and a deterioration took place.

As you know, last November the industry voted not to have the requirement that labels be applied. This resulted in recent years from certain large carriers adamantly stating that they do not use the system; that their management information system does not require automatic input and that they would not bear the expense of applying or replacing the label. Since using the railroads, such as the GTW, could not endure the expense of maintaining the labels on the Nation's entire fleet and since without 100 percent labeling of cars, cabooses, and locomotives the system cannot function, and as you know, it was discontinued.

Obviously, this action of terminating the requirement of labels on cars terminates the present system, and since the large railroads have declared that they will not bear the expense for equipping cars, no other system can possibly come in its place.

There have been discussions and experimentations of other systems. Some say that we should have the initial number on the side of a freight car, similar to what is on your personal check, so that it can be automatically processed and that this would be a better system.

Maybe it would be a better system, but it would require that we repaint every freight car in the United States, and that would be a monumental task and certainly extremely expensive.

They have also talked of magnetic blocks, radios, whatever else people can conceive of a way in which this can be done and hopefully there will be a better system than what we have today. But whatever that is, it certainly is going to be a great deal more than the \$35 per car set that is currently required to put an improved label on the side of a piece of rolling stock.

Now it is not my position that the present scanner and the present labeling is the only solution. There could be many other solutions, but we do have it now and we have had some experience with it and there are certain advantages to the present system.

First, it is inexpensive in comparison to the benefits and in comparison to a \$35,000 freight car.

Second, it is environmentally pure. It is a plain white light that is emitted and reflectorized similar to the four lights on every automobile. So, we don't have any interference of environmental arguments with our present system.

Third, that there is basically no label maintenance. The Canadian National conducted tests over an extended period of time on the improved Teflon-coated label. I quote from their report:

A covering of Teflon over the standard label material (Scotchlite) will prevent the label from becoming dirty. In fact, it reaches a dirt equilibrium point (i.e., no more dirt accumulates) which produces a signal return about 40 times higher than required by the scanner to read it.

So, we do have today a system that can work and can reflectorize.

Fourth, it is not dependent upon any one supplier, any one manufacturer, any one industry to supply the hardware that is necessary for them.

Fifth, there is only minimal impact on the readability through adverse weather.

Sixth, and I should say it is most important, it has proven its reliability in the difficult railroad operating environment.

Regarding this latter point, it has been proven in tests as well as by actual experience that if the labels and the wayside scanners are properly maintained, accuracy of over 98 percent can be assured. That the system, if maintained, will work reliably has been the conclusion reached by studies conducted by the Department of Transportation, the Association of American Railroads as well as other individual carriers beyond ourselves.

Grand Trunk's experience has proved that when coupled with the information that is contained within the computer such as waybill data, and we use the term data enhancement, our reliability percentage even in today's unlabeled, mislabeled, non-Teflon coated and deteriorated labels is over 98 percent. This degree of accuracy is entirely acceptable for our operations, and we and the

other carriers have proven that the present reflectorized multicolor label will work.

Now without ignoring ACI benefits for improving the safety of operations, and there are some of those and that is the first issue as far as all railroads go and I am ignoring the improved efficiency and productivity that is associated with car accounting or revenue and expense accounting.

Let me just mention a few things that this subcommittee is addressing today and that is car utilization.

Generally, this industry moves cars by reaction and not forward planning. Switch lists are made up after cars are received in a terminal, trains are dispatched upon a schedule or when sufficient cars have been accumulated. Errors in classification or dispatching of cars are discovered upon rehandling. Empties are matched with specific shipper requests after the car has stopped and inventoried.

Through proper programing and ACI, the above events can be programed in advance. Switch lists can be formulated upon an accurate record from the previous yard—ahead of arrival, not after. From this, the number of cars to each destination can be determined in advance, not after they accumulate; empties can be diverted or programed for movement directly to shippers as the cars are received from interchanges or while rolling. The ability to preplan railroad operations is available through the use of ACI.

Along this line the FRA and the Grand Trunk Western jointly conducted a research project that took 2 years, completed last summer, of trying to program our little railroad the operation in advanced, programing through ACI. We forecasted when trains should be operated, the locomotive power that would be required, the various blocks of cars on each train as well as the most efficient time to operate that train, and our results were most encouraging.

We could identify errors in our present, completely manual system of when to call trains and what classification to make. We could see where improvements to our operation were possible.

Now this depended entirely upon immediate output from the computer of what was going on in the ground being translated in forecasting into the future and the ability to program the output that permitted the planning of our operation in advance.

All of this was easily achievable with the real time input that is available from ACI.

Now a word about errors, and I think that you probably heard a lot of that. This was not a confession on the part of this industry; it is a matter of fact. All railroads make mistakes in handling cars both loaded and empty, and this is to be expected, for we operate in a diverse environment in all types of weather. We operate where there is not direct supervisory control and where many employees with varying skills all contribute to the movement of the freight car.

In fact, if it were not for the built-in pride of railroaders, our error rate would be much greater.

Mr. MADIGAN. Mr. Burdakin, would you excuse me?

Mr. BURDAKIN. Yes.

Mr. MADIGAN. I am going to have to go vote. So if you could stop there, and Mr. Rooney and I will probably be back in a minute and a half and then I will be back.

[Brief recess.]

Mr. ROONEY. You may proceed.

Mr. BURDAKIN. Mr. Chairman, Mr. Madigan had to go to the floor to vote at the time I was speaking a little bit about the errors that come up in the railroad industry, and I would just like to address that one a little bit.

That there will always be errors in the handling of freight cars, both loaded and empty, in the railroad industry. We operate in diverse environments; we operate in all types of weather where there is no direct supervisory control, where many people in many different crafts all contribute to the movement of a freight car and with that there are going to be errors.

I personally believe that if it were not for the pride that people have working in the industry of being a railroader, our error rate would be much greater. Certainly, the opportunity is there to even make more errors than we do, and we certainly make enough.

We will never eliminate all of these misclassification cars, but we can reduce their number and, more important, we can react and recover more quickly, and this is where I feel ACI comes in.

ACI gives an instantaneous message with the movement of the car on the track, of the car and actual event that is taking place of that car being transmitted to the commuter, and if an error has been committed, the transportation people can be informed immediately.

Almost universally today, errors are discovered after a movement has taken place. Cars are dispatched from a terminal improperly and are discovered upon receipt at the next terminal. Cars misclassified within a yard hopefully will be discovered at the next movement, probably when they are taken in to be built into an outbound train.

ACI can detect and advise of these errors at the time of occurrence and thus give operating people the opportunity to take corrective action with a minimum of delay.

In summary, let me say that although the first industry to foresee the advantages of automatic identification—namely, the railroad industry—was 10 years ahead of the retail food, automotive industry, and the warehousing industry. The railroads, because of our varying techniques in computer systems, are allowing the potential to remain unachievable forever.

Admittedly, ACI is not the entire answer to car supply, to all railroad operating problems, to once again a healthy railroad network, but it is the potential to materially assist in these goals. The present system should not be allowed to disappear until an improved technology is available.

I would like to suggest that this committee and the regulatory agencies of our Government use their influence and authority to insist that ACI apply a technique that has proven invaluable to many other industries be fully developed and evaluated by the railroad industry. This will require all pieces of rolling stock to be labeled properly and will require the cooperation of large railroads within this country as well as the owners of private car fleets.

I am convinced the potential of ACI was never really explored or evaluated. It never received the wholehearted support of the railroad industry. It was really never given a fair opportunity to prove its value.

From our experience on the Grand Trunk Western there is, in my mind, no other improvement of technological advantage that is on the horizon today that can and will or could impact the efficiency of train operation and the improvement of car utilization to a greater extent than what we now know as automatic card identification.

Thank you.

[Mr. Burdakin's prepared statement follows:]

STATEMENT OF JOHN H. BURDAKIN, PRESIDENT, CENTRAL VERMONT RAILWAY, INC., DULUTH, WINNIPEG & PACIFIC RAILWAY CO., AND GRAND TRUNK WESTERN RAILROAD CO.

Mr. Chairman, and Members of the Committee, it is a pleasure to appear here before you today to participate in this forum addressing car utilization which is the heart of rail transportation and to explain an issue of national importance to the shipping community. My name is John Howard Burdakin. My business address is 131 West Lafayette Boulevard, Detroit, Mich. 48226. My position is President of the Grand Trunk Western Railroad Co.

My entire working career has been spent in the railroad industry. Starting in 1947 in a training program for engineering graduates with the Pennsylvania Railroad. For the first eleven years, I was in the maintenance of way department—track, bridges, structures, signals and catenary.

Following these engineering assignments, I became Trainmaster in two locations and was then granted a leave of absence for fourteen months to manage the Panama Railroad, a division of the Panama Canal Co., having the full responsibility for its operation.

Upon return to the Pennsylvania Railroad, I was appointed successively Manager of Transportation Engineering, Superintendent of Transportation, and now with the Penn Central—General Manager, Vice President and General Manager. Then in mid-1971, I resigned to join the Grand Trunk Western Railroad.

I am a graduate of the Massachusetts Institute of Technology with a bachelor's degree in Civil Engineering. I have a Professional Engineer's license from the State of Pennsylvania and am currently serving on the Association of American Railroads' Board of Directors.

Now, let me turn to describing the Grand Trunk and its interest in this proceeding.

The Grand Trunk Western Railroad Co. (GT) is a U.S. Class I Railroad headquartered in Detroit with operations in the four midwestern states of Illinois, Indiana, Michigan and Wisconsin (See Figure 1). GT operates 1,320 route miles with 12 primary flat switchyards (no hump yards) and is predominantly a Michigan railroad with 85 percent of its route mileage located in that state.

At the end of 1977, GT's fleet consisted of 190 diesel locomotive units and 9,321 freight cars. The operations employ approximately 4,400 persons and are entirely freight, except for three pairs of commuter trains which operate for the Southeastern Michigan Transportation Authority in the Detroit area, and one Amtrak train each way between Port Huron and Battle Creek, Mich. In 1977, GT handled 486,000 revenue carloads of freight amounting to 3.4 billion revenue ton-miles.

The GT property is characterized by dense traffic centers populated with service-conscious customers. This combination of circumstances produces fast and short line-haul train operations. A high percentage of the revenue carloads consists of automobiles and automobile-related products due to the automotive manufacturing plants located along GT rights-of-way. To keep the automobile plants working at maximum efficiency, GT's service must be both dependable and rapid.

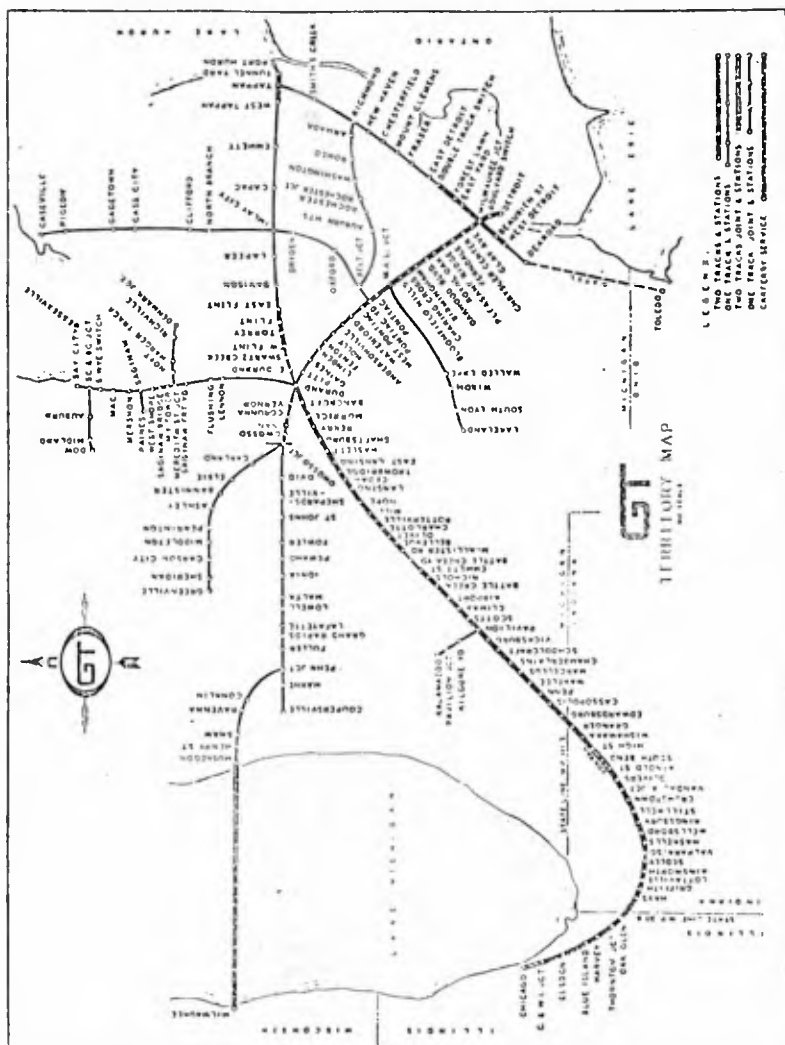


FIGURE 1. MAP OF GT SYSTEM.

Such an environment demands a data system that is highly accurate as well as one that minimizes the time between data input and train movement. The management information system that existed at the time I first became associate with the Grand Trunk (in 1971) was not, in my opinion, sufficiently sophisticated or responsive to provide controls for the demands of railroad operation and freight car utilization. A thorough investigation of all then existing technologies was conducted and a program incorporating the most advanced facets of a number of systems was undertaken.

During the period from 1974 to 1978 we installed our new data system, which is known as "RAILS" (Railroad Automated Identification and Location System). It is an integrated, automated information system on car movements, operations and revenues and works in conjunction with automatic car identification.

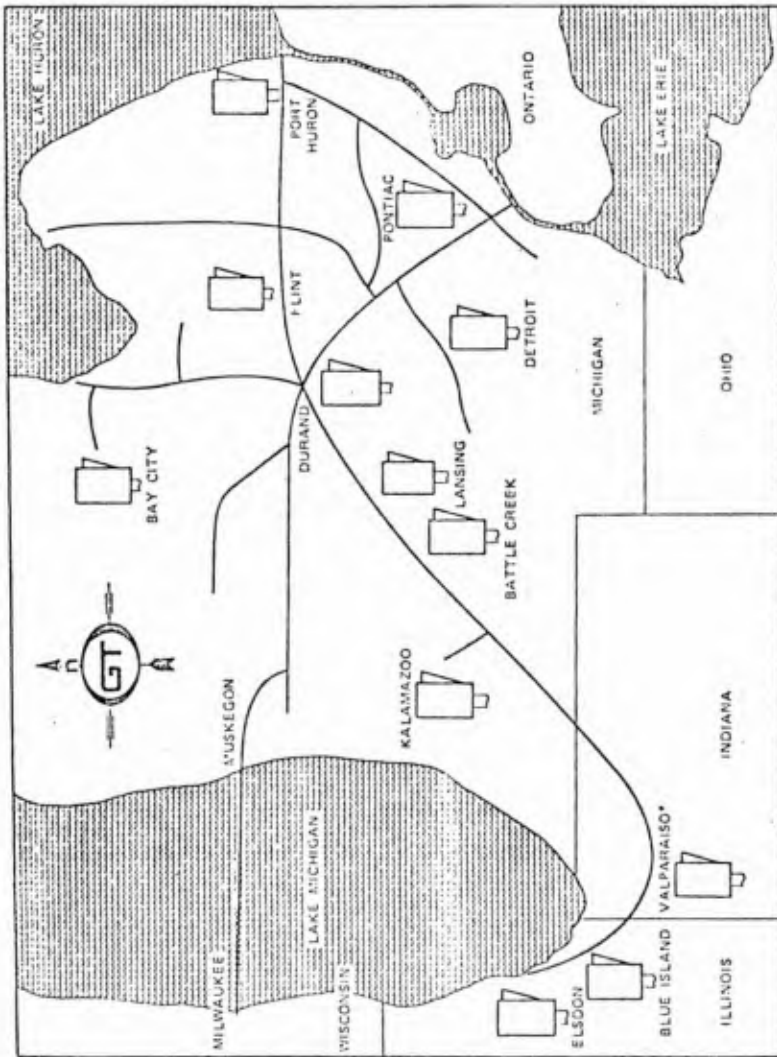
It is the first system that encompassed an entire railroad using the current technology of optical ACI sensors, computer-stored repetitive waybill data, medium high speed data communication channels, and distributed processing computer hardware.

RAILS is designed to give the GT, among other things, a near instantaneous inventory of complete and accurate operating facts so as to better utilize freight cars and thus improve our ability to control car hire/ownership costs.

First, in order to put automatic car identification in proper perspective, let me define it as a non-attended input device to a computer. It consists of two units; one, the label, is attached to each piece of rolling stock and identifies ownership and number, and the second, a reading or sensing device, to read the label on the car or locomotive. Automatic car identification is not essential to train operation for such information can be transmitted to a computer manually. The justification for a non-manual system resolves down to three basic considerations—timeliness, accuracy and efficiency.

GT's RAILS system consists of several computer processing units distributed between field locations and headquarters in Detroit. The field processing capabilities revolve around four mini-computers (Nodes) to which are connected ACI scanners as well as other data input and output terminals. The four Nodes are directly connected to large central processing unit computers.

The ACI scanners on GT property are electro-optical instruments located at trackside. The purpose of the scanners is (1) to read Association of American Railroads specified color coded labels containing initial and number placed on sides of railroad equipment, and (2) to feed this information to Node computers. Scanners on GT property are activated and deactivated by approach monitor devices (wheel sensors) placed along trackside at appropriate distances from the scanner. Scanners are located at the entrance and exit points of 12 principal GT terminals (See Figure 2). Within heavier volume terminals, scanners are located at key points to read intra-terminal car location changes. At the present time, there are 52 individual scanners on property feeding equipment initial and number information to RAILS.



*The scanner at the way station of Valparaiso, Indiana, also serves as an entering point scanner for the Harvey, Illinois, terminal.

FIGURE 2 ACI SCANNER LOCATIONS ON THE GT SYSTEM

To increase the accuracy of car identification beyond the scanner readings, RAILS makes extensive use of the concept of data enhancement. This concept uses advance waybill information which is initially entered for each car at its originating point on GT property. The enhancement process works as follows: An advance train consist is sent to a Node computer covering one of the 12 principal yards. As a train arrives at that yard, it passes the yard entrance scanner at which time the ACI input is sequentially matched with the advance consist information previously stored in the Node computer. The scanner input is used as the primary source of data for car initial and number as well as train standing order; the advance consist input alone is used for cars which are for some reason not read by the scanner. The inbound train list, which is the product of the inbound enhancement process, notes as an exception a car that was a part of the advance consist but was not found by the scanner.

Such an enhancement concept provides a virtually complete inbound train list in train standing order with no missing car initials and numbers upon the arrival of a train in a yard which has an ACI scanner at the yard entrance. Further, there is almost immediate availability of a switchlist due to the timeliness and efficiency of the unattended automated input. Contrast this with the most common method of car identification which "is the use of a clerk to visually observe and record car numbers. This may be done as the cars are entering or departing a particular part of the yard or while they are stationary. Some roads have adopted the use of closed-circuit television to observe cars as they move past a fixed camera, but the functions of observing and recording the car numbers are still performed by clerks. The primary drawbacks of these methods of car identification are the human errors introduced and the time required to process long lists of numbers manually. In yards where the list is made as a train enters or leaves a yard, the train speed is restricted to accommodate the visual observation. After the list is complete, it must be delivered to the yard office and integrated with other data sources.

"The use of closed-circuit TV eliminates the requirement to deliver the list to the office, but does not greatly improve the error rate inherent in the human manipulation of numbers or the speed at which the information can be recorded. Some improvement might result from the clerk's operating in an office environment rather than at trackside, where error rate and efficiency can be adversely affected by inclement weather. A TV system has a limited field of view and limited tolerance to light and contrast, however, so that marginally readable cars could introduce errors."¹

It is a fact that the GT RAILS system could have been designed without intergration of the ACI scanner into its concept. Freight cars have always moved without automatic identification. However, the GT believes that its RAILS system does have the positive and real time verification of car movements only possible with ACI, and that such information on an instantaneous basis is essential to our objectives improved service to all shippers across the United States.

The economics supporting our decision to utilize the ACI concept were re-examined rigorously by the GT during the summer of 1975 and presented to the AAR membership at an Operating-Transportation Division General Commission Meeting in Chicago on November 6, 1975.² The GT's findings were that through implementation of ACI technology over the complete GT system the annual rate of return on the ACI portion of the RAILS system was expected to be 40.4 percent.

It should be mentioned at this point that the 40.4 percent rate of return was based on facts that existed in 1975 such as (1) daily car hire (as opposed to hourly car hire, effective July 1, 1978); (2) use of certified interchange documents (as opposed to the use of AAR TRAIN II computer records as official interchange effective January 1, 1978); (3) mandatory labeling of cars offered in interchange (as opposed to voluntary labeling effective November 18, 1977); and (4) labor and car hire 1975 rates. As car hire and labor rates have subsequently increased, the benefits of this system should well exceed the projected 40.4 percent return on investment.

The benefits which were discussed in the GT's 1975 report were classified by the following groups:

¹ *A Study to Analyze and Define Alternative Approaches to Automotive Car Identification Prepared for Association of American Railroads, Washington, D.C., ARINC Research Corporation, (June 15, 1977), p. 4.*

² *"Our ACI Story" Presented to the O-T General Committee Grand Truck Western Railroad Co., (November 6, 1975).*

| | Percent of total annual cost savings |
|--|--|
| 1. Productivity improvements (Labor)..... | 45.6 |
| 2. Operating efficiencies: | |
| (a) Reduction of mishandled cars..... | 23.9 |
| (b) Reduction of open records | 16.1 |
| (c) Reduction of hold track cars | 10.1 |
| (d) Reduction of error interchange effects | 4.3 |
| Total | 100.0 |

An explanation of the above referenced Operating Efficiencies anticipated through the use of ACI are given below:

(a) Reduction of Mishandled Cars: A positive check with yards and each train arriving and leaving major yards will immediately indicate cars which are on the wrong train and would otherwise be subject to unnecessary road haul movement, switching expense, and car hire/ownership costs. Based on a sample drawn from a GTW 1974 population of 417,128 cars, the GT found one car in 58 was mishandled. Further, according to the United States Railway Association *Report to Congress on ConRail Performance in 1977*, published in May, 1978, it was estimated that 600 cars were mishandled by ConRail daily, causing an average delay of five days per car. If ConRail handles 15 percent of the Nation's rail traffic, this 3,000 delay car days per day could amount to 20,000 mishandled car days created each day across the United States, a staggering figure which could be materially reduced, I'd estimate 60-80 percent—through the use of ACI technology.

(b) Reduction of Open Records: Positive identification of most moves made by cars on the GT will reduce open car records, thereby saving clerical time at Headquarters and at field locations.

(c) Reduction of Hold Track Cars: Positive identification of all cars arriving and leaving the yard will permit no-bill cars to be immediately identified thereby setting in motion the mechanism to match cars with their waybills at the earliest opportunity.

(d) Reduction of Error Interchange Effects: A positive check of each interchange cut leaving major yards will immediately indicate interchange cars which are moving in error. The effect of such errors will be reduced if proper disposition can be given to the foreign road before the car arrives at the foreign road's yard.

The first Node of the RAILS system to become operational was located at Chicago. This Node commenced activity in April, 1975. Implementation at all other Nodes was completed by December, 1977. Unfortunately, this December, 1977 date came to pass one month after the AAR membership voted to discontinue mandatory labeling of cars. Just at the time our system was stabilized and in position to demonstrate clearly, the industry voted to discontinue the label which has to be the very foundation of any automatic system.

The GT's current position on ACI, nonetheless, is based on its historical experience between 1975 and 1978. This experience has proven that the optical ACI technology does work and works well, especially when used in conjunction with automatic data enhancement.

GT's experience with data enhancement can be demonstrated by statistics gathered with an approximately 4,000 car monthly sample at Chicago between April 1977 and March 1978. These figures represent the percentage of car initials and numbers and standing order in the train (or cut of cars) correctly enhanced and thereby making a nearly complete inbound or outbound list.

PERCENT CORRECTLY ENHANCED

April 1977, -98.6; May 1977, -98.1; June 1977, -99.1; July 1977, -98.9; Aug. 1977, -98.8; Sept. 1977, -98.7; Oct. 1977, -98.2; Nov. 1977, -98.1; Dec. 1977, -98.1; Jan. 1978, -98.1; Feb. 1978, -97.6; and March 1978, -98.4.

The ability for the optical scanners to read the multicolored labels accurately was proven by studies conducted for Federal Railroad Administration. The report by the FRA's contractor showed that over 99 percent readability was possible provided there is proper maintenance of the scanning equipment, the controlling software and the labels. The Association of American Railroads, from their research, confirms the ability of the system, if properly maintained, to perform reliably. Sufficient testing has been performed to eliminate the question of reliability and readability provided the system is properly maintained.

The biggest limiting performance characteristic of the current optical ACI system is the ACI label itself and the accumulation of dirt on its surface. Dirt reduces reflection and thereby lessens label readability.

Perhaps the most significant report to be published recently on this subject was issued by the Canadian National Railways (CN) on April 5, 1977. The document was titled *Report on Long Life OACI Label Tests*^{*} and discussed research conducted from 1970 through 1977. The report contained the following conclusions which were visible supported by color photographs in the report document:

"(a) Based on the data collected during this life test of Optical Automatic Car Identification labels, the label life (i.e., ability to read) is determined primarily by the dirt accumulation on its surface. When the dirt is removed, the labels again display good retro-reflective characteristics.

"(b) A covering of teflon over the standard label material (Scotchlite) will prevent the label from becoming dirty. In fact, it reaches a dirt equilibrium point (i.e., no more dirt accumulates) which produces a signal return about forty (40) times higher than required by the scanner to read it.

"(c) Teflon overlays (sheet of teflon over the entire label) have good adhesion to the label and show little sign of deterioration after 20 months of service. They also 'rebuild' an old scratched up label to make it display characteristics very similar to a new label which has been constructed from teflon coated modules. This means that most existing dirty labels can be refurbished by scrubbing and applying an overlay. The cost of doing this is approximately 15 percent of the cost of a new label.

"(d) Labels which have been covered by teflon, in addition to being inherently clean, can also be cleaned by an easy washing/wiping process. This reduces label cleaning costs.

"From these tests, it becomes evident that teflon coated labels have a life significantly longer than 7 years. The test labels show virtually no signs of deterioration after seven (7) years of life in a rugged dirt environment. Furthermore, one can conclude that label washing will no longer be required, since the labels will not accumulate a lot of dirt."

The present system for ACI will work if maintained. It is a proven system; in spite of derogatory comments, all studies show that it has worked effectively where given proper support. Furthermore, this proven system is not limited to being manufactured by one supplier.

Although there have been frequent references to a second-generation system, none have succeeded in performing outside of the laboratory. None suggests a system that is as inexpensive as that based upon the present performance-proven reflectorized label. Advocating that the industry wait for an improved system, and I would be the first to welcome it, eliminates any hope for real time automation within the next decade. There is nothing available today. Any proposal would have to start from the beginning—and would be faced with the same objections and resistance as the present system.

Obviously to be effective, automatic identification requires each piece of rolling stock to be equipped with the proper label or device that can be universally read. The percentage of readability can never be greater than the percentage of properly equipped rolling stock operating in interchange service on the North American railroad network. Unless a commitment is made and vigorously fulfilled to have each car and locomotive properly identified by a readable label, any system, present or future, cannot achieve its potential.

A number of large carriers have designed their car movement-management information systems upon manual input. Thus, they feel that there is no personal advantage to apply and maintain labels on their rolling stock. Since a few of the roads adamantly declared that they would not apply and maintain the labels, the majority felt that there would be no benefit in continuing the program. After all, it is evident that a 100 percent participation is required. Unfortunately, the few users do not have the resources to label the entire fleet.

For the above reason, the entire ACI program although apparently approved by AAR rules, never really received the support or commitment by the majority of the industry. Labels were not applied to 100 percent of the cars. Labels were not replaced if destroyed or defaced. The older labels were not cleaned or coated. I know for a fact that the Penn Central during its bankruptcy years allowed its labels to deteriorate.

The few carriers using ACI could not assume the burden of applying and maintaining all labels. Without complete and proper labeling, the present system was not effective. In fact, no system can ever be effective without support.

^{*} W. Friesen, *Report on Long Life OACI Label Tests*, Canadian National Railways, (April 15, 1977).

As previously indicated, with data enhancement, the GTW was successful in achieving an accuracy of over 98 percent. We had, with the Indiana Harbor Belt, a verified interchange agreement based upon scanner output of cars passing between the two roads. We were encouraged by our success and if the discontinuance of labelling had not occurred, we were confident that our management controls would be more accurate and timely than any in the industry. These controls would translate into improved service and improved car utilization which I believe is mandatory if the railroad industry is to survive in the private sector.

The railroad industry was 10 years ahead of all other efforts for automatic identification. Just when other industries are using this advanced electronic concept for recording sales and inventory of food products, sorting shipments, checking proper components in an assembly and developing new applications daily, the railroad industry gave up on the concept. I did not and cannot support the movement to discontinuance of a \$35 label on a \$35,000 freight car, when I can vision the potential advantages stemming from instant knowledge of each car, knowledge of its contents when loaded and the characteristics of each when empty. I believe the program should be continued. I am confident if actual results can be demonstrated, automatic car identification will receive increasing support and rapidly expanding applications.

In my opinion there is nothing this industry can do that would result in greater returns in safety, car utilization and efficiency than continuation of the ACI labelling program. The participation of all carriers is required either by mandatory regulation or support in the initial application of the labels.

In summary, let me itemize the reasons I feel so strongly that this program of automatic car identification should be continued.

From the instantly available information of the movement of a car or train in the field to the computer, we can:

1. Determine car characteristics that will permit improved movement to next loading point.
2. Determine if road movement is proper—identify mis-classification or mis-routing at initial rather than terminating terminal.
3. Eliminate cars without billing and billing without cars.
4. Verify car movement records for interchange settlements. This is especially significant in view of hourly car hire rates which became effective July 1, 1978, versus daily car hire rates which were in existence theretofore.
5. Determine car contents—hazardous, dangerous, etc., and verify proper handling.

The GT's experience with the scanners shows that day after day and train after train, the scanners pick up errors in car movements of which the clerical forces were not aware; and these errors occur despite the fact that we feel we run a tighter ship than most railroads.

It is because of all the above referenced potential operating and car utilization improvements, the GT believes the concept of automatic car identification should be given a continuing life; and therefore, we welcome the House of Representatives' consideration of the need for ACI systems and the opportunity to describe our success and express our confidence in the future.

Thank you again for your courtesy in permitting me to testify. I will be pleased to answer any of your questions on this subject.

Mr. ROONEY. Thank you.

Does anybody have a plane connection to make?

Mr. Root. Missed it.

STATEMENT OF GARY B. ROOT, GENERAL MANAGER, TRANSPORTATION AND DISTRIBUTION, AMAX COAL CO.

Mr. Root. Mr. Chairman, I am Gary Root. I am general manager of transportation and distribution for Amax Coal Co. I appreciate the opportunity to come before this committee both in support of automatic car identification and also to elucidate some of the problem areas that we see with the railroad transportation system.

With your approval I would file my report and statement, with one amendment. In appendix C I have taken one sentence out in the conclusion, the first and last sentence in the second paragraph.

Mr. ROONEY. Without objection, with that amendment your statement will be included in the record.

Mr. ROOR. To highlight the situation relative to automatic car identification, with the advent of unit train operations for movement of coal as we know them today, one of the requirements of the railroads placed upon the shipper in order that a favorable transportation rate could be obtained was that the coal producer, in his operation, make determination of the weights of individual cars and the total gross tare and net weights for each train which is loaded.

To do this, producers installed sophisticated scale systems, a part of which is an optical scanner. The scanner provides the ability to place the car initial and number in conjunction with the weight determined for each car in the total train. This information is used throughout our systems to provide the fundamental basic data for all of our accounting and invoicing operations.

We have found that for the cars which are in our service when labels were properly maintained, scanners were over 95 percent reliable, 95 percent readable.

In November when the AAR determined that rule 88 would be changed, I took it upon myself to poll the railroads which served our mines and also the customers which owned equipment in service at our mines, requesting that they continue to apply and maintain labels to equipment in our service. Included in my submission are letters indicating approval and continuance of this system. Included also is a letter from Conrail and a letter from the Burlington Northern indicating that they would continue to install and maintain labels.

Unfortunately, to this date the railroad commitment has been lip service. We have not seen it. ConRail does not have scanners located in our area. Burlington Northern has not maintained labels on cars of their ownership.

As I said, we have installed these systems at the majority of our mines. It has been a project which has been undertaken at a cost of over \$3 million in our effort to provide the assistance to the railroad and also to improve transportation.

We intend to continue the use of these labels wherever possible, and we would hope that the railroads would reinstitute rule 88 and give the system a fair chance and experience.

Going on, I would like to address the matter of changes in the Interstate Commerce Commission. We have supported very strongly the proposition of contract rates for coal. I won't go into it in detail. The statement is very clear in our support of it.

I would say that there are many many pitfalls within this proposition, the small shipper situation being only one. I am happy to see that the Commission has taken this issue at hand. I think it is one way in which railroads in the future will be able to enhance their ability to finance the needed maintenance and rehabilitation of the physical plant.

Yesterday comments were made relative to unitrain type shipments versus the small shipper. I would only like to note that from an order of magnitude one is in the same ball game with the other. The initial capital investment necessary to provide facilities to load unit trains is so much greater than that necessary for the single

car shipper that the impact of inefficient railroad operations on one or the other monetarily is great.

In 6 months of 1978, my company's revenues in the West are down over \$5 million simply because the trains were not there to load. We feel that the loss to the railroads, although we do not have it identified specifically, is in the area of twice that amount. Our customers are undergoing scrutiny, as Mr. Kessler has said, by the public service commissions because of the vast additional investment required in order that they might receive the coal originally contracted.

We feel that this is an area of great concern in that railroads ought to know how to run their business. They ought to tell the customer what they can or cannot do. We feel that this has not been the case.

Since 1972 we have met annually with the railroads, telling them of our tonnage projections for the coming years, 1 year, 5 years, or 10 years. Each year the transportation has not come up to those tonnages, and we expect that at the end of this year we will probably be falling short of our original contracts. Our mine out of 10 operators in the Powder River Basin happens to be the largest mine in the United States. We will fall short by approximately 1½ to 2 million tons. That puts a lot of money out of the bottom line.

[Testimony resumes on p. 303.]

[Mr. Root's prepared statement follows:]

STATEMENT OF GARY B. ROOT, GENERAL MANAGER, TRANSPORTATION AND
DISTRIBUTION, AMAX COAL CO.

My name is Gary B. Root. I am General Manager of Transportation & Distribution for AMAX Coal Company, a Division of AMAX Inc., whose business address is 105 South Meridian Street, Indianapolis, Indiana 46225. I am pleased to appear before this subcommittee to provide shipper response to the subject under consideration by the committee. AMAX Coal, the third largest U. S. producer of coal, operates eleven mines located in Illinois, Indiana, Kentucky and Wyoming. Production from these mines in 1977 was over 28 million tons. Annual production will continue to increase to approximately 45 million tons in 1980, 57 million tons in 1985, and is expected to continue at that level beyond the year 2000. Approximately 99% of AMAX production is shipped to electric utilities. AMAX Coal reserves total some 3.5 billion tons.

Our Wyoming operation presently utilizes approximately 3,500 rail cars, 3,000 of which are owned by utilities. By 1985 our Wyoming operations will utilize approximately 7,000 cars, of which approximately 6,000 will be owned by utilities. In the Midwest our mining operations consist of a mixture of unit train and volume shipments. Approximately 1,000 cars are owned by utilities with the remaining requirements filled from railroad car pools.

Our concern in the matter of freight car utilization and the national car shortage is centered upon the recent decision by the Association of American Railroads to eliminate the requirement for labeling of cars and the maintenance of labels presently on cars which have been used to provide car data input to reporting systems.

With the advent of unit train technology, high volume shippers were able to avail themselves of rail movement of relatively low value bulk commodities on an economical basis. In developing transportation systems for unit coal train operations, railroads have required determination of weights by means other than weighing on railroad scales. This requirement has forced producers to install sophisticated track scale systems. Included in and fundamental to these scale systems is the use of electronic scanners which have enabled AMAX and other coal producers to relate the determination of the weight of a car loaded with coal to the proper car initial and number.

AMAX installed these sophisticated track scale systems in its mines with the assistance and guidance of various railroads during a period in which automatic car identification was pursued by the railroads as the ultimate facility for car identification and utilization. It has been reported in various rail trade publications that the cost of the development of automatic car identification to the railroads was in the millions of dollars. Scale scanner systems installed at various AMAX mine locations have cost over \$3 million dollars.

Our experience indicates that these scanning systems are reliable in excess of 95% of the time so long as labels are properly maintained. Based on such favorable experience, it is the intention of AMAX to continue the installation of such systems at mines to be developed in future years. As an indication of railroads' cooperative effort in continuing the use of automatic car

identification, attached as Exhibit A are letters received from the Burlington Northern and ConRail in which each railroad commits to continue to install and maintain car labels on its fleet of coal hopper cars. Also attached (Exhibit B) are letters from various utility companies indicating a similar commitment and an excerpt from a car lease contract which requires the use of scanning systems. From these it should be apparent that the coal industry and its customers intend to continue the use of the car labels in reporting systems.

The recent announcement of fines assessed against ConRail and the Southern Pacific is indicative of the state of the art of reporting systems among railroads. It is incongruous that the American Association of Railroads could eliminate a functioning control system when it appears that a replacement or approved system is not available. It is even more incongruous that Southern Pacific should be the driving force behind attempts to eliminate car labels.

The elimination of the requirement for application and maintenance of car labels would render AMAX's scanning systems inoperable which could return responsibility for weight determination to the railroads. Returning this responsibility to the railroads would force the railroads to weigh cars using less efficient methods which would lead to delays causing economic loss and a demand for more cars and locomotives. The additional car and locomotive requirements for both shippers and railroads would total an unnecessary investment of millions of dollars.

AMAX is currently experiencing a severe shortage of railroad owned cars at several of its mining operations. AMAX believes this to be a direct result of poor fleet management on the part of railroads, in addition to the general condition of trackage and shortage of locomotive power. This equipment shortage is particularly acute in the Midwest where in general the railroads have not utilized the capability of automatic car identification. The railroad industry has not offered an acceptable alternative to automatic car identification. AMAX views the action of the railroads through the American Association of Railroads as extremely detrimental to its ongoing operations.

Speaking to the general subject of freight car utilization and the national car shortage, it is unfortunate that this matter has not been resolved within the railroad industry or its affiliations, and has become a matter of concern to the Congress. We at AMAX applaud the efforts of this committee in its deliberations and look for positive direction to result from such efforts. We believe there are many areas of improvement to explore only one of which is the matter of contract rates. Attached as Exhibit C is a copy of the AMAX Coal statement in support of railroad contract rates submitted to the ICC. Exhibit D is an account published in the November issue of Modern Railroads/Rail Transit which clearly paints the disturbing picture of railroad progress. It is clear from this statement that immediate steps for improvement are necessary. We hope the results of this subcommittee's investigation will be to positively indicate the concern of not only Congress, but of the shipping public, and a direction to the Interstate Commerce Commission and the railroads for corrective action.

EXHIBIT A**BURLINGTON NORTHERN**

COAL OPERATIONS DIVISION

176 East Fifth Street
St. Paul, Minnesota 55101
Telephone (612) 298-3300

Mr. Gary B. Root
General Manager Transportation and
Distribution
AMAX Coal Company
105 South Meridian Street
Indianapolis, Indiana 46225

May 30, 1978

Dear Gary:

In regard your letter of January 20, 1978, concerning the need for continued maintenance of automatic car identification labels at the AMAX Belle Ayr-Eagle Butte Mining Complex.

Am pleased to announce Burlington Northern has altered its policy to the extent that BN will apply and maintain ACI labels on BN-owned unit train coal cars. Implementation of this policy change should commence promptly.

The purpose for again maintaining labels on such coal cars is to accommodate volume coal shippers who own and maintain their own ACI scanners as part of their management and administrative systems.

When you wrote us January 20, 1978, you also extended letters to various utilities regarding this problem. Suggest at this time you notify these utilities regarding Burlington Northern's decision in this matter.

Very truly yours,



T. C. Whitacre
General Superintendent Coal

cc: Mr. M. M. Donahue

File: AMAX (ACI) CO-4

cc: R. E. Miller
P. M. GarsonR. J. Steele (BN letter only)
D. J. Collins (BN letter only)

EXHIBIT A

Gentlemen:

The AAR has recently eliminated requirement for application of Automatic Car Identification (ACI) labels to freight cars. However, Conrail has decided to continue application of labels to its own open top hopper cars. This is being done to assure positive identification for weighing and billing purposes at two weigh-in-motion scales in Pennsylvania. The owners of private and lateral line railroad cars normally handled over these scales have been requested to continue label application.

Your cars are not now handled over these scales. However, there have been studies indicating future Conrail installation of weigh-in-motion scales at points where ACI may be the best means for relating weights to correct car numbers. Thus it is possible that future developments will make it mutually advantageous to have ACI labels on your cars.

We wanted you to know at this time what our plans are in regard to labelling and weighing.

Sincerely,

A handwritten signature in cursive script, appearing to read "Charles".

Charles H. Wolfinger
Assistant Vice President
Coal & Ore

EXHIBIT B**AMERICAN ELECTRIC POWER Service Corporation**

P.O. Box 700
Lancaster, OH 43130
(614) 687-1440

January 31, 1978

Amax Coal Company
105 South Meridian Street
Indianapolis, Indiana 46225

Attention: Mr. Gary B. Root
General Manager,
Transportation & Distribution

Dear Mr. Root:

Referring to your letter of January 20, 1978 with regards to the Association of American Railroads ruling on eliminating the use of Automatic Car Identification equipment labels (ACI) on cars used in interchange service.

You may be assured that American Electric Power Service Corporation will maintain the Automatic Car Identification labels that are presently on our cars and any future cars will also be equipped with ACI labels if available.

Sincerely,

W. G. Bell, Jr.
General Manager,
Transportation

WGB/AJR/js

cc: E. H. Wright

EXHIBIT B

KANSAS CITY POWER & LIGHT COMPANY

1330 BALTIMORE AVENUE

KANSAS CITY, MISSOURI 64141

February 28, 1978

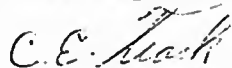
Mr. Gary B. Root, General Manager
Transportation & Distribution
Amax Coal Company
105 South Meridian Street
Indianapolis, Indiana 46225

Dear Mr. Root:

Regarding your letter to Mr. Hughes dated January 20, 1978, about the railroad's decision to discontinue the use of automatic car identification equipment raises the question in my mind as to why this is not now required in the AAR Rules. Has this equipment been unsatisfactory in trying to determine the actual weights or proper car numbers? I have never heard anything negative about the use of automatic car identification equipment until this time. If this equipment is working satisfactorily, I am sure it is to our mutual benefit to maintain labels on our present cars and any cars that we may order at a future date. I can assure you that unless we have problems in this area, we will continue to maintain the labels on our cars.

We have not been inspecting the labels at this point and may not be able to determine when the labels need to be replaced. However, we will have our inspector look at these and we would appreciate it if you would notify us when there is a problem with your equipment reading the labels on our cars. If a problem is detected in this area, please notify me at the earliest opportunity and I will make sure that the labels are repaired or replaced as soon as possible.

Yours very truly,



C. E. Trask, Manager of
Generating Stations

CET/pw

cc: Mr. D. T. McPhee
Mr. J. H. Hughes
Mr. A. M. Zion



Portland General Electric
121 S.W. Salmon Street
Portland, Oregon 97204

February 1, 1978

Gary B. Root
Manager, Transportation and Distribution
Amax Coal Company
105 South Meridian St.
Indianapolis, Indiana 46225


Dear Gary:

In response to your January 20, 1978 letter, please feel assured that Portland General Electric is well aware of Amax Coal Company's requirement for the application and maintenance on Automatic Car Identification (ACI) labels on coal cars and that Portland General Electric's pending coal car purchase specifications specify that ACI labels shall be applied.

Also for your information, Portland General Electric's 230 coal railcar reporting marks have been designated "PGE" and are reserved for Portland General Electric's use by the Association of American Railroads.

Four (4) double rotary coupler cars are to be numbered 1 through 4 and 226 single rotary coupler cars will be numbered 101 through 326.

Sincerely,



W.J. Warner
Administrator of fuels Transportation

441

cc: L.C. Curtright
P.J. Applegate
P.B. Groelz
C.P. Yundt
G.H. Bernards
L.E. Hodel

EXHIBIT B

OKLAHOMA ELECTRIC COMPANY 321 North Harvey Post Office Box 321 Oklahoma City, Oklahoma 73101 Telephone 405-272-3000

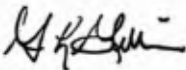
January 27, 1978

Mr Gary B Root
General Manager
Transportation & Distribution
AMAX Coal Company
105 South Meridian Street
Indianapolis, Indiana 46225

Dear Gary:

I was very disappointed when the Association of American Railroads took their typical step backward and reversed themselves on automatic car identification. It is the intention of OG&E to maintain the labels on our present cars in a readable condition. The decision as to what will be done on future car purchases will be made at the time the cars are purchased.

Yours very truly,



G L Gibbons
Vice President

GLG:sm

cc - J L Govett

EXHIBIT B

EXCERPT OF CAR LEASE FROM TRANSWEST ASSOCIATES

Section 7. Reports. On or before the fifth day of each month during the term of this Lease, the Lessee will deliver to the Lessor a computerized printout recording the roundtrip car mileage traveled by each Unit of Equipment during the preceding month. The Lessor, at its sole cost and expense, will equip each Unit of Equipment with the standard Association of American Railroads automatic car identification (ACI) label. The Lessee, at its sole cost and expense, will maintain an ACI optical scanning system for automatically capturing and producing the required mileage information from each passing Unit of Equipment employed in unit train service.

EXHIBIT C

BEFORE THE
INTERSTATE COMMERCE COMMISSION

RAILROAD CONTRACT RATES
PROPOSED CHANGE IN POLICY

COMMENTS OF AMAX COAL COMPANY

IDENTITY

AMAX Coal Company (AMAX), a division of AMAX, Inc., a New York corporation, with offices at 105 South Meridian Street, Indianapolis, Indiana 46225, hereby submits its comments on "Railroad Contract Rates - Proposed Change in Policy."

AMAX is a coal mining company with nine mines in Illinois, Indiana, and Kentucky, and two mines in Wyoming. We are involved in long term and short term contracts for the supply of coal to electric generating utilities and other industrial concerns.

AMAX believes that railroad contract rates are especially attractive when considering the movement of coal. The problem of energy and energy reserves is a serious one, and with the move in our country toward better utilization of our energy resources better means of transporting coal will be necessary.

Contract rates by rail carriers could go a long way toward better transportation. Not only coal, but all commodities may benefit. Utilization of existing equipment is less than satisfactory. A recent article in Progressive Railroading maintains that rail car utilization has not improved in the past fifty years. With the advance in technology over this period, that is a shocking statistic; however, the fines levied against the Southern Pacific and ConRail for delay of equipment on their respective lines is strong evidence in support of it. Our further comments on better car utilization are included in our address to specific questions.

Railroad contract rates will better serve the increasing national need for the lowest possible cost of energy and a stable supply. Such a rate will enable all concerned to obtain a stronger control on increasing costs. With knowledge of a steady source of revenue, shippers, carriers and receivers will be more able to distribute cost by more effective planning. For the first time, rail carriers will be certain of their amount of revenue from one movement over a period of time. By decreasing the variables, the risk of not regaining an investment is also reduced.

The recent decision of the Commission de-emphasizing general rate increases in favor of specific increases lends support to railroad contract rates. Increases in rates over the life of the contract can be controlled by the Commission. Specific accounts (maintenance of way, fuel, wages, etc.) could be maintained which could render exact amounts of increases over a period of time. The rate increase would be patterned on this information.

To accomplish a more efficient means of rail transportation through contract rates, it may be necessary to amend the

Interstate Commerce Act itself. This should not be a hindrance if railroad contract rates are seen as a benefit to the public concern and the National Transportation Policy. The obligations of a rail common carrier, performing under contract rate agreements, must be clearly defined. If rail carriers are permitted to withdraw from, or reduce participation in, their contract the shipper and receiver will be injured, and the concept of railroad contract rates will be destroyed. If either party is allowed this means of avoiding their obligation, the cost advantages derived through better planning and less risk cannot be realized.

DURATION OF THE PROPOSED AGREEMENT OR
COMMITMENT UNDERLYING THE CONTRACT RATE

The vast number of shippers and commodities transported represent the many differing situations for which railroad contract rates may come under consideration. The costs of providing contract rates may vary from shipper to shipper and commodity to commodity, and the rate at which a carrier's investment may be regained may vary. Accordingly, by providing strict time limits under which railroad contract rates are to exist on a single contract, many shippers may be restricted from using this service.

Each proposed contract will have to stand on its own merits. Such considerations as the cost of providing the service, reasonableness of the proposed rate, effect on other shippers of like commodities, undue preference and/or prejudice should be the controlling factors. If all obligations can be met within the proposed time limit of the contract, it should not be rejected due to the life of the contract being too short or too long.

WHETHER THE CARS INVOLVED IN THE RAIL MOVEMENT
SUBJECT TO THE PROPOSED RATE ARE THOSE OF THE RAILROAD

The push in recent years has been toward more privately owned rail cars. This somewhat relieves the problem of car shortages and frees the carriers' capital for other uses.

Long term contracts, for example the supply of coal to electric generating plants for periods of up to twenty-five years, may especially be attractive for the purchase of privately owned cars. The practice today is to provide a decreased rate for movements in private cars. The carrier has less capital invested in the move under these circumstances; therefore, a reasonable rate is justifiably lower.

Shorter term contracts involving less volume may make it impractical for the shipper to purchase cars. In such a case the carrier may opt to assign a certain number of cars to the exclusive use of this shipper. Such assigned cars are not uncommon today. This would provide a continuing supply of equipment to the shipper during the contract period. The cost of providing such cars must be reflected in the contract rate.

COMPETITIVE CIRCUMSTANCES SURROUNDING THE TRAFFIC TO BE
MOVED UNDER THE PROPOSED CONTRACT

Competition may be a factor in granting railroad contract

rates, but such rates should not be denied due to the lack of competition. The direct threat of loss of traffic to the nation's railroads is very much present in the matter of slurry pipelines. Their inception could divert coal traffic from rail movements, especially when long distances are involved. If, through contract rates, railroads could lower existing rates to a point enabling them to meet the competition of pipelines, they should be able to do so. Keeping our rail carriers in solvency is a must.

EFFECT ON CAR UTILIZATION

The effect of railroad contract rates in car utilization could only be positive. If more private cars are obtained due to agreements entered into, this frees the existing rail cars for other movements. Private cars also enable rail carriers to invest more capital in equipment for general use,

Assigning cars to the exclusive use of shippers through contracts may encourage carriers to acquire additional cars. It is a good incentive to know that an expenditure will be recovered. This insurance may be provided by the contracting of rates.

SPECIAL CONSIDERATIONS OF SHIPPERS AND RAILROADS

Contracts should, to some extent, be uniform. All should contain provisions pertaining to:

- (1) Rate and escalation formula and audit safeguards -- such provisions would provide cost information upon which the rates are based and increased, and provide information as to the expenditure of revenues earned.
- (2) Service and performance requirements with adequate safeguards to insure shipment of the agreed tonnage -- obligations of all parties.
- (3) A contract life shipment schedule -- amount to be shipped per year in multi-year contracts.
- (4) Equipment requirements, ownership and responsibilities -- amount of cars necessary, private or carrier ownership, and maintenance responsibilities.
- (5) Carrier's financial protection in the event of unforeseen shipment lapses, such as origin or destination disaster -- this would provide added insurance to encourage investment by the carriers.
- (6) A cancellation provision including external, uncontrollable circumstances -- especially important to contracts covering several years. Products may become obsolete before the end of the contract due to no cause of any involved party.
- (7) Liability stipulations.
- (8) Force majeure by all parties.
- (9) Contract indemnification.
- (10) Contracts must involve all three parties -- shipper must provide the product for shipment, carrier must transport the product, and receiver must accept the product, in agreed amounts.

(11) Arbitration clause.

(12) Length of contract.

Railroad contract rates should be permitted in conjunction with water carriers to provide through routes and rates. This will enable rail carriers to reach markets which otherwise might be impractical.

Contracts may differ according to each unique situation. Most movements of western coal are to electric generating utilities which require large volumes of coal over a long period of time -- a requirement of two million tons per year for twenty years is not unusual. Such a move would best be served by a single contract from one origin to one destination. AMAX, in such a case, would require several contracts.

All shippers may not be involved in such a large movement to one destination, but some may have a large volume of shipments when all destinations are considered. A single contract providing the originating carrier a road haul on all moves would enable the shipper to offer a large volume for shipment. The shipper's obligation would be to originate an agreed amount of tonnage.

WHETHER THE REQUIREMENTS UNDER THE RATE PROPOSAL
INVOLVE PERCENTAGES OF THE TRAFFIC TO BE MOVED
OR A FIXED ANNUAL VOLUME AMOUNT

To obtain full benefit of railroad contract rates, it seems necessary for the carriers to be insured of a certain amount of

tonnage. If this can be accomplished by agreeing to percentages of total traffic, the same result would be obtained as if an agreement of annual volume had been reached. The agreement of a percentage does seem to be more questionable in that it is an estimate. A shipper may maintain his agreement by providing the percentage contracted while, at the same time, the tonnage decreases.

CONCLUSION

Railroad contract rates should be beneficial to all parties if policed properly. The present governmental policy toward increased use of coal provides an excellent time for the inception of such rates. More efficient transportation means less cost, better equipment utilization and a stronger transportation system.

~~The Interstate Commerce Commission has, for some time, been accused of "antiquated regulation".~~ The Railroad Revitalization and Regulatory Reform Act of 1976 provided means for the Commission to permit innovative rate making for rail carriers. This legislation, along with the provisions for contract rates by rail carriers, is an opportunity for the Commission to shed this label.



Modern Railroads/Rail Transit

• 1977 •

Nov 1977

TABLE 2
FREIGHT CAR USE SHOWS LITTLE IMPROVEMENT

| | 1946 | 1976 | Percent Change |
|--|---------|---------|----------------|
| Freight Car Miles 10 ⁹ | 30.2 | 28.5 | Down 6 |
| Loaded CM 10 ⁹ | 20.2 | 15.8 | Down 22 |
| Empty CM 10 ⁹ | 10.0 | 12.7 | Up 27 |
| Loaded Miles (Percent) | 67.0% | 55.5% | Down 11.5 |
| Serviceable Cars On Line 10 ⁴ | 1.8 | 1.4 | Down 25 |
| Average Miles per Year | | | |
| Loaded | 11,050 | 11,499 | Up 4 |
| Total | 16,500 | 20,720 | Up 26 |
| Average Miles per Day | | | |
| Loaded | 30.4 | 31.5 | Up 4 |
| Total | 45.2 | 56.8 | Up 26 |
| Freight Train MPH | 16.0 | 20.0 | Up 25 |
| Car Movement Hrs./Day | | | |
| Loaded | 1.9 | 1.6 | Down 16 |
| Total | 2.8 | 2.8 | No Change |
| Time Proportion | | | |
| Loaded | 7.9% | 6.7% | Down 1.2 |
| Total | 11.8% | 11.7% | Down .1 |
| Revenue Tons Originated 10 ⁴ | 1,366.7 | 1,406.7 | Up 3 |
| Tons per Car | 39.6 | 61.0 | Up 54 |
| Serviceable Freight Cars | | | |
| On Line 10 ⁴ | 1.8 | 1.4 | Down 22 |
| Trips per Year | 18.8 | 16.8 | Down 11 |
| Freight Train Speed | 16.0 | 20.1 | Up 26 |
| Unserviceable Freight Cars 10 ³ | 75.1 | 120.0 | Up 60 |
| Unserviceable Freight Cars | 3.9% | 8.0% | Up 4.1 |
| Car Miles/Train Mile | 51.8 | 67.1 | Up 30 |
| Net Ton Miles/Train Mile | 1,086.0 | 1,954.0 | Up 80 |
| Net Ton Miles/Loaded Car Mile | 31.3 | 52.4 | Up 67 |
| Average Capacity | | | |
| Net Tons/Car | 51.3 | 73.5 | Up 43 |
| Load Factor | 61 % | 71 % | Up 10 |
| Load Movement | | | |
| Capability Utilized | 4.8% | 4.8% | No Change |

Mr. ROONEY. Thank you very much. That was a very fine summary.

Mr. Collins.

STATEMENT OF DAVID J. COLLINS, PRESIDENT, COMPUTER IDENTICS CORP.

Mr. COLLINS. Thank you, Mr. Chairman.

I am David Collins, president of Computer Identics Corp.

If I may, I would like to summarize and try to expand within the available time.

Mr. ROONEY. Without objection, your statement will be made part of the record. You may summarize.

Mr. COLLINS. Let me begin by stating that ACI was not invented by Computer Identics. It is not our system. Rather, we chose to be a supplier of ACI equipment and systems after the Association of American Railroads—AAR—adopted the Sylvania Kartrack TM System as the industry standard in 1967.

The question can be asked what has happened since then, and I would like to give my perception of that answer.

The railroads, as a broad industry, failed to complete the job implementing ACI. They started the job but they never finished. The key to an ACI system is the readability of the labels affixed to the rail cars.

Just as an example, I brought a label so that everyone can see what the substance of it is. The scanners must be able to read these labels. By 1973, the label readability became a problem 6 years after adoption because the original AAR instructions did not provide for label maintenance; they provided for a label installation but no method of compensating the various car owners for maintenance.

At that time the operating committee of the AAR highlighted this fact and recommended a label maintenance program. By AAR sample no more than 30 percent of the rail industry followed these maintenance provisions in the following 2 years.

By 1975, as Mr. Burdakin referred to this, the label technology had made a prime jump in improvement by adding a Teflon overlay which has the self-cleaning characteristics which the Canadian National reported on.

Another significant development in this 1975 period resulting from the scrutiny over the maintainability of the label was a series of studies performed under a task force, and this task force was composed of the supply industry as represented by the Railway Progress Institute, the AAR, and the Federal Rail Administration and the research arm of the Department of Transportation, the Transportation Systems Center in Cambridge.

In my prepared testimony I refer to the work done by the research center in Cambridge. DOT and I think it would be instructive if the committee could have access to their results which have been, I think, most dramatic in focusing the attention on the virtues and areas of improvement for this technology.

Now while this task force produced a lot of very valuable information, most railroads disregarded this source of information and voted to kill ACI in 1977, even before the results of the FRA sponsored research was completed. During this period we have

heard a witness ahead of me comment on their position, but the opinion we have, and I think it has not been recognized, the shippers have not been given a fair shake. They were told in the sixties that ACI was the answer to the problems of car utilization, car distribution, and reliable service. They were asked to pay higher freight rates than they did to offset the cost of applying labels to freight cars.

Of course, there has been a trend again reported here where 20 percent of the cars are owned by other than the rail industry or other than the carriers themselves. When the ACI task force was formed in 1975, shippers applauded it because they saw this as a means to make constructive improvements in ACI. They had no reason to believe the AAR would abandon the ACI label and they were not solicited to vote on this abandonment matter. So, owners of 20 percent of the railcar fleet never had a say in this matter of critical importance to them.

Now ACI was not adopted by the AAR in 1967 as an experiment to be conducted for a 5- or 10-year period. The cost of car marking long ago became a permanent cost element in the freight rates. To vote removal of the label without adopting a substitute device represents the only step I can recall of regression in the postwar age of computers.

There are rich railroads—we have heard of them—who have developed control systems that are suitable to their operations, but they do not have the simplicity and commonality of ACI necessary for a national car control system. This was referred to even by ConRail yesterday in Mr. Hagen's written testimony.

In killing ACI last year, a small number of currently profitable railroads took the most parochial view of transportation possible and voted to truncate any development of real time car location reporting.

When the AAR voted to remove the ACI label from the rolling stock they controlled, Computer Identics Corp. filed a petition with the ICC requesting proceedings to explore the role of all automated car location systems in the context of the role these systems play in car utilization.

When our request for proceedings was denied, we took the additional step of requesting that the court of appeals reverse this unfortunate ICC order. The ICC has now requested that the court approve a remand to reopen the docket, but only after 9 months after costly delay; 9 months that have seen the worst car shortage since World War II develop.

I appreciate the opportunity to address this committee today. In closing, I wish to leave a recommendation that I believe is in the best interest of the shipping community, the general public and the railroad industry. I ask this subcommittee to use its considerable influence to focus the ICC's attention on this promising label so that it can be restored to the sides of the freight cars until something that has been demonstrated to be better can take its place. This simple step should immediately lead to reactivation of 500 dormant scanners and permit an atmosphere in which the development of modern scanner-based car location systems can flourish.

Thank you.

[Mr. Collins' prepared statement follows:]

STATEMENT OF DAVID J. COLLINS, PRESIDENT, COMPUTER IDENTICS CORP.

Mr. Chairman, members of the Subcommittee, I am David J. Collins, President of Computer Identics Corporation, located at 31 Dartmouth Street, Westwood, Massachusetts (02090). Computer Identics is one of several companies serving the railroads and general transportation market through the design and manufacture of Automatic Car Identification (ACI) systems. Another division of our company produces bar-code readers and systems for automatic identification and control applications in food processing, distribution, and manufacturing.

I am appearing here today to offer my views on why automatic car identification must be given the opportunity to help alleviate the national car shortage problem and thereby contribute to a significant improvement in freight car utilization. As chief executive of a firm engaged in automatic car identification applications for nearly a decade, and as Chairman of the Railway Progress Institute's Subcommittee on Automatic Car Identification, I believe I am qualified and, indeed, obligated to give you the perspective of ACI from the supplier's point of view.

Let me begin by stating that ACI was not invented by Computer Identics. It is not our system. Rather, we chose to be a supplier of ACI equipment and systems after the Association of American Railroads (AAR) adopted the Sylvania Kartrack™ System as the industry standard in 1967. ACI is a generic term associated with that system. This Subcommittee has an understanding of the principles of ACI so I will not take up valuable time describing how the system works. Also, I am sure you are reasonably familiar with the history of ACI within the AAR. For the record, however, I wish to incorporate in my testimony, by reference, two important and relevant documents dealing with ACI.

They are: Interstate Commerce Commission Docket Number 36700, filed by Computer Identics Corporation on September 23, 1977, and U.S. Court of Appeals for the District of Columbia Petition C. A. No. 78-1221 filed by Computer Identics Corporation vs. the United States and the Interstate Commerce Commission. These documents cover important ground and the Subcommittee is encouraged to review them when time permits.

Seven years ago, I appeared before the Senate's Special Subcommittee on Freight Car shortages, Senator Hartke's committee. I described to that distinguished group how ACI worked and enthusiastically spoke of its promise in helping solve the same problems we're discussing here today. What has happened since then? Perhaps, more appropriately, we should ask, "What hasn't happened," and "Why?"

The railroads, as a broad industry, failed to complete the job of implementing ACI as they had planned in 1967. They started the job, but never finished. Given the choices of investing in rolling stock, track, computers, or ACI, most railroads opted for the first three choices. According to the Association of American Railroad's Operating and Transportation General Committee, in a special ACI Report to the Board of Directors in 1974, ACI had not received, "... the type of emphasis and commitment necessary at the highest corporate levels toward implementation".

For example, some railroads, such as the Southern, did not think ACI could improve their operations. They believed that with their superior management they were quite capable of getting the job done without ACI. Other railroads, such as the Southern Pacific, believed they had developed highly effective and comprehensive, computerized car control systems using human data recording techniques. Meanwhile, the AAR developed TRAIN I and TRAIN II, with no provision for ACI connection, although it is a natural input technique and had been just embraced by them. Individually and collectively, the efforts of railroads' computers and the AAR's TRAIN Systems have not been able to solve the car utilization and car distribution problems. These existing systems need something more to be effective. They need automatic, accurate, and immediate input from strategically placed ACI trackside scanners.

The key to an ACI system is the readability of labels affixed to the railcars. The scanners must be able to read them. By 1973, label readability became a problem because the original AAR instructions on labeling did not provide for maintenance. The AAR O-T General Committee report highlighted this fact and recommended a label maintenance program. No more than 30 per cent of the rail industry followed these label maintenance provisions when they were adopted. By 1975, label technology had improved and produced an expected life of 18 years. This new label was incorporated in AAR labeling regulations but was not adopted by many railroads since it increased their investment by \$4 per railcar.

The most significant result of the industry's concern with label effectiveness was the establishment of a task force. This ACI Task Force embarked on an effort to determine—once and for all if optical ACI was a viable concept, and, what, if

anything, could be done to improve the system. I serve as Chairman of that task force and you have heard testimony on studies conducted by the FRA/DOT.

Most railroads have disregarded the work of this diligent group, paying little or no attention to its findings, and, I'm sorry to say, took drastic and unilateral action to kill ACI in 1977 before the research funded by the FRA and conducted by DOT's Transportation System Center (TSC) was even complete.

The shippers have not been given fair shake. They were told in the 1960's that ACI was the answer to the problems of car utilization, car distribution, and reliable service. They were asked to pay higher freight rates—and they did—to offset the cost of applying ACI labels to freight cars. Meanwhile, there has been a trend in recent years for shippers to purchase their own cars. Today about 20 per cent of all railcars are non-rail owned.

When the ACI Task Force was formed, the shippers applauded because they saw this research as the means to make constructive improvements in ACI. They had no reason to believe the AAR would abandon the ACI label, and were not solicited to vote on the matter. So, owners of 20 percent of the railcar fleet never had a say in a matter of critical importance to them.

ACI was not adopted by the AAR in 1967 as an experiment to be conducted for a 5 or 10-year period. The cost of car marking long ago became a permanent cost element in the freight rates. To vote removal of the label without adopting a substitute device, represents the only step I can recall of regression in the post-war age of computers.

There are rich railroads that have developed control systems that are suitable for their operations but do not have the simplicity and commonality of ACI necessary for a national car control system. In killing ACI last year, a small number of currently profitable railroads took the most parochial view of transportation possible and voted to truncate any development of real-time car location reporting.

The 1977 USRA report on ConRail highlights the continuing problems of car utilization on that property, reporting that "upwards of 600 cars are sent to wrong destinations daily," costing ConRail \$25 million annually. With ACI properly designed in a ConRail yard control system, this could not happen.

When the AAR voted to remove the ACI label from the rolling stock they control, Computer Identics Corporation filed a petition with the ICC requesting proceedings to explore the role of all automated car location systems in the context of the role these systems play in car utilization. When our request for proceedings was brusquely denied by the ICC, we took the additional step of requesting that the Court of Appeals reverse this unfortunate ICC order. The ICC has now requested that the Court approve a remand to reopen the docket, but, only after 9 months of costly delay—9 months that have seen the worst car shortage since World War II develop.

I appreciate the opportunity to address you today. In closing, I wish to leave you with a recommendation that I believe is in the best interest of the shipping community, general public, and the railroad industry. I ask this Subcommittee to use its considerable influence to focus the ICC's attention on this promising label so that it can be restored on the sides of freight cars until something demonstratively better can take its place. This simple step should immediately lead to reactivation of 500 dormant scanners and permit an atmosphere in which the development of modern, scanner-based car location systems can flourish.

Thank you. I will be pleased to answer any questions the Subcommittee may wish to ask.

Mr. ROONEY. Thank you, Mr. Collins.

I don't know whether or not you were here, but Dr. Harris of the AAR testified that the ACI system, I believe, never came close to the middle or high 90 percent of the readability standards the railroads felt they needed. However, you state that a simple piece of Teflon on a table solves the main problem of readability.

My question is, why hasn't the AAR taken into account this evaluation?

Mr. COLLINS. Well, I believe the recommendation of their committees helped focus the AAR in this area of relief. If I may extract from a 1974 report to the AAR board by their Operating Committee, I would like to just take a minute to put this 80 percent or 85

percent readability into focus. I will read an extract from the AAR's Operating Committee to their own board. They say:

In spite of the benefits that could be derived from a properly implemented ACI system, the fact must be accepted that the railroad industry has not properly maintained ACI labels. The problem is not difficult to pinpoint. Among those cars which are labeled, 3 percent are incorrectly installed, 3 percent have been damaged and 7 percent are dirty.

And that is the area that the Teflon will deal with, the dirt.

The problem of dirty labels applies primarily to flat cars and specifically to TTX cars, approximately 7 percent of the cars are unlabeled. Now if you add those numbers, you get 20 percent.

To date, there has been no effective industrywide program the AAR says in 1974 to correct the label efficiencies. Thus the current level of readability—including cars, trailers and containers—is in the range of 80 percent.

Now Dr. Harris said yesterday in his filed comments as a reason why the OT committee voted to abandon ACI, he said it was the consensus of the Operating Committee that it is unfair for all car owners to continue to bear expenses of labels for the sake of the few railroads which have decided to make use of ACI, but in the introduction of any new system by definition if it is to be used universally, this has got to be the initial condition.

In general—and these are my observations—the rail industry is slower to adopt innovation than other industries. They were on track, the railroads, and they were on a curve which made ACI promising relief for many of the things that have been discussed here as proper levels. They aborted the effort, and I think it was unfortunate and will require some mandatory regulation like the ICC to restore it.

Mr. ROONEY. Don't you think that the ACI lost out in fair competition with other types of traffic control systems? Perhaps, manual identification, coupled with machine data systems, can achieve whatever positive impact on car utilization that ACI could?

Mr. COLLINS. Mr. Rooney, it is not my opinion that they are merely comparable. I believe ACI is so far superior that it was a competition in that sense.

There are witnesses who perhaps can answer with less subjectivity than I.

Mr. Burdakin.

Mr. BURDAKIN. I think that what we have got to realize is that with ACI you have an instantaneous unattended input into a computer and that any of the other systems require manual input and that that is going to encompass some sort of delay.

Mr. ROONEY. But the Teflon strips don't they get damaged? Don't they become dirty and then miss picking up the signal when they go through the scanner?

Mr. BURDAKIN. You heard the figures that Dave Collins just commented on. The percentage of cars or locomotives that were never labeled was in excess of 5 percent, 7 percent I think is the figure that he said, 3 percent were mislabeled. That is, they were put on the side of the car but had an error in them. Right there we have 10 percent that is impossible to read.

I don't believe that we ever had the discipline within the industry to properly label all of the cars in order to give this a fair chance and that certain other management information systems

which were designed primarily by computer types, whereas ACI promoted by operating people, decided they could not rely on the operating department for input and designed a system that they felt was fully capable of controlling the movement of freight cars and that their system would not require the automatic input device.

Unfortunately, however, I feel that when they did this, they built in an automatic delay. The result is certain railroads have said we are not going to use them, we will never use them and so we will not maintain the labels on our cars and we don't want to pay for that expense.

Mr. ROONEY. Mr. Madigan.

Mr. MADIGAN. Mr. Burdakin, I am a little confused. I have two sheets, and one says you are the president of the Grand Trunk Western and the other says you are the president of the Central Vermont. Maybe you are the president of both.

Mr. BURDAKIN. And one more, sir. Yes, sir. There are three railroads in the United States that are owned by the Canadian National.

Back in 1970 the Grand Trunk Western lost a tremendous amount of money, and the Canadian National had to do something to change it in view of losing \$30 million. They created an American holding company called the Grand Trunk Corp. and put the three railroads that they owned—Central Vermont, Grand Trunk Western, the Duluth, Winnipeg & Pacific—put those three under the Grand Trunk Corp. They did this in order to create an American operation independent of the Canadian National.

Now they felt that the Canadian folks that they had sent down to run the railroad did not understand items of how the U.S. Government works or how Congress works, how the AAR works, the ICC, and really just felt that the best opportunity was to create an independent organization and company oriented toward these three railroads. The GTW is, by far, the largest, having the largest revenue of the three railroads.

Mr. MADIGAN. Are you actually in the railroad business in both the United States and Canada?

Mr. BURDAKIN. No, sir, I do not go into Canada. I have the American side; all of the American side interest of the Canadian National, with the exception of a small line that runs across the top of Maine into Portland. But all of the others that are within the United States come under my jurisdiction.

Mr. MADIGAN. Aren't there two large Canadian railroads?

Mr. BURDAKIN. Yes.

Mr. MADIGAN. One is owned by the Government and one is not?

Mr. BURDAKIN. That is right. The Canadian Pacific is a stock-held company owned by the public. The other is a Crown operation owned by the Government. However, the two railroads are treated identically by the Government and whatever is required of the regulations, the laws, the controls, through the Minister of Transport are identical whether it is the Canadian Pacific or the Canadian National.

There are some smaller railroads, but those are the two big dominant railroads.

Mr. MADIGAN. There is a Canadian Transportation Authority that assumes the functions that are assumed in the United States by both the ICC and the FRA; is that correct?

Mr. BURDAKIN. Yes. There is a Minister of Transport, which would be roughly comparable to our Secretary of Transportation.

Mr. MADIGAN. How would you compare the cooperation in the Canadian Transportation Authority and the railroads and the cooperation between the Interstate Commerce Commission and the railroads here in the United States?

Mr. BURDAKIN. First, let me qualify that I have been in this business now 31 years, and it has all been in the United States, and I really have not had any direct dealings with the Minister of Transport. My relationship with them is purely secondhand. Sitting on the management team of the Canadian National I get some feel of this, although it does not apply to me, but I listen to the conversations that go on.

There is an ability of the railroad industry, and when I say that, it is generally the CP and the CN together being able to go to the Minister of Transport and to go within the Transport Commission and discuss the problems of the industry in an open way and not in an adverse way. There is an understanding of the problem of the railroads as well as the requirements of the Government in providing a strong railroad network basically as a public utility. In Canada there is an ability to exchange and an ability to communicate that I really have not felt within the Interstate Commerce Commission.

I maybe should not say this but many of the orders that come out in regard to the railroad industry seem to me to be oriented toward perpetuating the past rather than looking into the future. I am talking about U.S. railroads. The rest of the world, our customers and our needs are changing, and yet, for reasons that I don't fully understand, there seems to be a feeling that we must perpetuate the past and not permit the industry to adapt or progress.

As an example of the difference I use the branch line situation. If there is not the ability to maintain a branch line and yet it is needed, then there should be some way to maintain that branch line without draining funds from the solvent and stronger portions of the railroads.

Mr. MADIGAN. In the United Kingdom, if the Government feels that a particular line must continue to be operated, the British rail feels that it does not want to continue to operate that line, then the Government becomes responsible for paying the British rail to operate that line.

Is that the same as what goes on in Canada?

Mr. BURDAKIN. To a certain degree. There are subsidies for the branch line operations of Canada that serve people of Canada that cannot be serviced any other way. There are locations where rail is the only connection. You cannot even drive to some of those communities, and those rail lines are obviously needed and are supported.

Both the Crown Corporation and the Canadian Pacific get this type of support. Probably the best example was in the passenger area prior to the formation of VIA, which is their recently formulated equivalent to Amtrak.

Mr. MADIGAN. You describe yourself as the——

Mr. BURDAKIN. If a railroad felt they were not making money on the passenger business, they then would go to the Minister of Transport and request discontinuance. The Transport Commission would make only one determination and that is whether the people of Canada needed it or not.

If the people of Canada didn't need it, the service was terminated. If the Commission determined the people needed it, then automatically there was a subsidization formula that came into effect, depending upon the expenses. It was not 100 percent, but it was in the area, as I recall, about 85 percent of out-of-pocket expenses would be paid automatically. The payment would be made and the railroad would be reimbursed for operating that train.

Mr. MADIGAN. Having described yourself as the biggest user of the ACI system in the United States, do you know whether or not the system is in widespread use in Canada?

Mr. BURDAKIN. It is not in widespread use. They did have certain yards which were surrounded by automatic car identification as did the Santa Fe, but as far as I know I am the only railroad, possibly with the possible exception of the Duluth Missabi & Iron Range which carries predominantly iron ore, the only railway which was designed to be completely linked with ACI and all movements would be instantly recorded through this technology.

Mr. MADIGAN. Mr. Root, I was very much interested in your difficulties with railroad cars. Your loss of revenue as a result of this on these in your projection as to the railroads' loss of revenue.

The gentleman sitting on my left here was curious to know as to whether or not you would sign a contract with the railroad for cars on a take or pay basis. You have mentioned the need for so many cars. Would you be willing to sign a contract that guaranteed you the delivery of those cars, and if you didn't use them you would have to pay for them anyway, and if they didn't deliver they would have to pay a penalty.

Would you sign a contract like that?

Mr. ROOT. I believe that is essentially the thrust of what the Commission is considering within the whole realm of contract rates.

I should point out that as a shipper of coal, our contracts with our customers are for coal, f.o.b. the mine, and the customers pay the transportation.

We would be happy to enter into a contract of take or pay nature as a third party to the tariff or contract; whichever it may be. We have built facilities, as I said, under the guidance of the railroad and the direction of the railroad as to what technical specifications are needed so that we can handle all that they can give us, and if we don't now handle that we essentially do have a take or pay within the auspices of the demurrage and detention and origin. We are severely charged if we delay trains beyond a specified minimum loading time.

So to answer your question, yes, if the case came about in our favor so that the railroads too had to guarantee a multibeneficial contract for service, yes, we would.

Mr. MADIGAN. Mr. Collins, we had some testimony yesterday about transponders that go under the bottom of a freight car and is

buried in the ground and speeds up to 100 miles an hour. Are you familiar with that development?

Mr. COLLINS. Yes, I am.

Mr. MADIGAN. Is that a system that is superior to the ACI system?

Mr. COLLINS. Not in my opinion, Mr. Madigan. There was one instance in which the optical system used by the AAR in this system was placed side by side, and that was in 1969 in Czechoslovakia; tested for 6 months.

Mr. MADIGAN. That was a very bad year.

Mr. COLLINS. 1968 was the bad year. I was there at the time.

The optical system performed better; it had more cars, it had a higher reading accuracy. It has two other features. It does not have the FCC complications and further, it is capable of reading piggybacks as well as the flatcars which, at least in a former version, the one I am most familiar with, the German system in this country, I think the liability of railroading is increasingly dependent upon accuracy and promotion of that traffic.

Two users of ACI that are not rail carriers have adopted this label because of its ability to produce tracing information for their cars for their equipment on rail cars. Sea-Land and several other container companies and the U.S. Postal Service. They are both users of this technology, and I think I underscore how important piggyback is as an aspect of this. So I am not enthusiastic about yesterday's testimony.

Mr. MADIGAN. Your system works only up to the speeds of 70 miles an hour?

Mr. COLLINS. No, sir; 80 miles an hour.

Mr. MADIGAN. Eighty miles an hour?

Mr. COLLINS. Yes, sir. If you wanted to work at 160, double the width of the strips. It is that simple.

Mr. MADIGAN. Thank you, Mr. Chairman. I have no further questions.

Mr. ROONEY. Thank you very much, gentlemen. We appreciate your appearance here today.

I don't know whether or not the railroad industry agrees with you or disagrees with you. I happen to think the ACI system is a good system, and I wish you well in your endeavors. You gave good testimony and you gave good reasons why we should have them.

Mr. COLLINS. Thank you.

Mr. ROO. Thank you.

Mr. ROONEY. Our next witness is Mr. George B. Martin, Jr., vice president of American Cotton Shippers Association.

STATEMENT OF GEORGE B. MARTIN, JR., VICE PRESIDENT, AMERICAN COTTON SHIPPERS ASSOCIATION, ACCOMPANIED BY NEAL P. GILLEN, VICE PRESIDENT AND GENERAL COUNSEL

Mr. MARTIN. Mr. Chairman, I am George B. Martin of Memphis, Tenn., vice president, special projects, of the American Cotton Shippers Association. I am accompanied by our vice president and general counsel, Neal P. Gillen of Washington, D.C. We appear here today to present our views concerning the present rail car shortage.

I appreciate the opportunity to be here today. For the sake of brevity I am going to eliminate part of my report and paraphrase some.

Mr. ROONEY. Without objection, your statement will become part of the record, and you may continue to summarize.

Mr. MARTIN. Yes. The American Cotton Shippers Association was founded in 1924 and is basically comprised of merchants, shippers, and exporters of raw cotton who are members of five federated associations located in 16 States throughout the Cotton Belt.

Since 1960 the annual movement of cotton to domestic mills has ranged from a high of 9.5 million bales to a low of 5.8 million bales. Exports in this period have ranged from a high of 6.8 million bales to a low of 2.82 million bales, with the estimated figures for the current season ending July 31 at about 5.5 million bales. During this period approximately 225 million bales were moved, mostly by rail, to U.S. mills; and 80 million bales moved to U.S. ports by rail for shipment and export aboard oceangoing vessels. The cotton industry, Mr. Chairman, has made throughout the years a substantial contribution toward the development and improvement of the U.S. railroad industry. We are greatly concerned with the deterioration in service in recent years coupled with record high rate increases which have impelled us to divert additional traffic to competing trucklines.

In performing our service function on behalf of the American cotton farmer and the consuming textile establishments in the United States and abroad we have encountered the most critical rail transportation problem during the past season that can be recalled in recent decades. This past year we have harvested a larger than normal cotton crop whose timely delivery has been jeopardized for lack of adequate transportation.

I might add here I have not heard any testimony today regarding general purpose boxcars, and that is what we must have. We cannot ship out cotton in hopper cars.

Beginning in 1977 and continuing to date, general purpose boxcars of both the 40-foot and 50-foot variety have been nonexistent for extended periods of time in many areas of the Cotton Belt stretching from the Carolinas to California. The most critically affected areas have been the Midsouth and the Southwest.

The lack of rail equipment has placed a tremendous burden on the trucking industry, which cannot handle the volume that normally would have been shipped via rail. As a result, the cotton industry has suffered losses of untold millions in storage and interest charges as well as contractual penalties for delays in many instances.

It is recognized that there are many factors contributing to rail-car shortages, which we will enumerate herein; but the shortage of all types of equipment for various industries, including ours, has not been explained to anyone's satisfaction. We can only conclude that there has been a gradual deterioration in rail services during the past years that has now reached a critical stage.

Our association anticipated an impending problem as early as June 1977 and endeavored to alert the rail carriers of our projected boxcar needs by holding meetings at various locations throughout the Cotton Belt—meetings are being conducted this year, with two

already concluded, in Memphis, Tenn., and Harlingen, Tex. Last year we received assurances from those rail carriers present that there would be ample equipment. Such was not the case. Cotton backed up in the pipelines at warehouses and cotton gins and created severe congestion. Many domestic and foreign sales were placed in jeopardy and producers suffered depressed prices on their unsold inventories.

Our members have implemented major innovations in recent years to affect better boxcar utilization by performing heavy loadings with incentive rates. Also, the rail transport of cotton from gins to warehouses within the Midsouth and Southwest was discontinued, thereby releasing those cars formerly used in short-haul operations.

We have taken every avenue of approach in attempting to explain the severity of this crisis. In the past few months we have come to Washington to testify before subcommittees of the Senate Agriculture and Commerce Committees, the ICC, DOT, and USDA. We have also expressed our concerns at ICC regional hearings in Atlanta and Memphis.

The crisis has finally been recognized and the ICC has been responsive, initiating prompt action through the issuance of various emergency service orders.

I would like to include this for the record.

Numerous violations were uncovered by Commission investigations, resulting in substantial fines in a number of cases. We commend the Commission for its direct role in obtaining some improvement.

Still scraping for cars at the conclusion of this marketing year, we now face a new harvest, starting with the first movement in the Rio Grande Valley in a few short weeks. We still have 1.25 million bales unshipped from last year's crop and we face additional problems with an estimated 12 million bale crop from the coming harvest. If we cannot ship, our farmers will no doubt face the likelihood of depressed prices, their cotton cut off from the marketplace. A large part of our problem is our dependence on general purpose boxcars. The large movement of grain, combined with a limited number of covered hopper cars, was largely responsible for our problems last year. We hope that this will not be the case again this year.

In our judgment, a number of factors have contributed to the gradual deterioration and eventual collapse in railroad service. The principal problem areas seem to be:

1. Poor distribution and utilization of equipment, combined with violations of ICC regulations and orders.
2. Poor management and operation of ConRail has resulted in an overall drawdown in service of other rail lines.
3. ConRail's lack of sufficient locomotive power and the down time for repair of locomotive equipment by other rail lines.
4. A decline in the supply of general purpose boxcars, the ratio of bad order boxcars increasing from 6.7 percent in 1968 to 15.6 percent in 1978.
5. Replacement of old general purpose boxcars with new specialty cars.

6. Failure to maintain boxcars, resulting in dirty cars delivered for loading which are incapable of being placed in appropriate condition by shipper's agents.

7. Increased use of 40-foot boxcars for shipment of grain when large crops result in shortage of covered hopper cars.

8. Severe weather conditions the previous two winters seriously impaired the operation of a number of railines, principally Con-Rail.

9. Failure of the railroads to restore to service the thousands of 40-foot boxcars which have been abandoned on rail sidings throughout the country.

In our opinion, there are several measures that can and should be taken to help relieve the present boxcar shortage and to insure that adequate equipment is provided. We recommend that:

1. The ICC continue to closely monitor railroad operations to make certain that car distribution and allocation orders are enforced and that cars are made available to the cotton industry throughout the entire year.

2. Pursuant to its authority under part I, section I of the ICC Act, the Commission issue a service order, to be effective immediately and for the duration of this emergency, permitting carriers the free substitution of cars measuring up to 53 feet for the 40-foot category of cars, protecting and thereby providing the same weights and rates when the 40-foot cars are not available.

3. That the Commission investigate promptly the possible discrimination by some railroads in their giving priority to competitive loading origins rather than filling car orders in the sequence received.

4. Repair of bad order cars be expedited, especially those capable of restoration with minimum funding.

5. That revenue demurrage be applied in those cases where cars under load are not pulled promptly.

To help resolve our own long-range needs we recommend that the U.S. Department of Agriculture initiate and maintain a close liaison with the Interstate Commerce Commission in order to communicate present and projected needs of the cotton industry. That is being done, incidentally.

We also recommend that an investigation be conducted by the USDA, ICC, DOT, and the Association of American Railroads to determine the following:

1. Projections for new general purpose boxcar construction, establishment of a mechanism for quick repair of bad order cars, and the restoration of abandoned cars.

2. Projections for the acquisition of new covered hopper cars in order to provide an adequate fleet of grain cars, thereby eliminating their use of 40-foot boxcars vitally needed by the cotton industry.

3. Whether railroad holding companies are delivering revenue from rail operations toward nonrail ventures.

4. Whether funds designated for equipment acquisition and maintenance are being diverted to general operating expenses.

5. Whether current laws are effective toward increasing the ownership of and improving the maintenance of rail equipment.

6. Whether the revenue derived from the ownership and use of rail equipment is a sufficient incentive to secure new equipment.

7. Whether there should be a modification of existing rules to the end that a more reasonable portion of such funds are allocated to the restoration of abandoned and bad order boxcars.

Mr. Chairman, these hearings have presented the subcommittee with a significant challenge to find solutions for what we hope are not insoluble problems. The implementation of our recommendations and those of the other organizations appearing at these hearings will hopefully alleviate the present chaos in rail transportation. Our experience tells us that the solutions to these problems are not to be found in rate increases, absent improvement in services.

On numerous occasions in testimony before the Congress and in protests to the ICC we have observed that the concept of seeking profit through efficiency seems to have vanished from the minds of those responsible for the operation of America's railroads: Railroad management, union officials, government, and the regulatory agencies. The Commission's continual soul searching and then acquiescence to the perpetual rate increase demands of the railroads does nothing but prolong the crisis.

How long, we ask, must the interested public—producers, shippers, and the ultimate consumers—protest the failure of an industry and its regulators to solve its problems by means other than increasing rates? Unless the issues are promptly faced, the Nation's railroads will continue to shuttle from crisis to crisis.

Mr. Chairman, we appreciate this opportunity to appear here today and we will endeavor to be of assistance to the subcommittee and staff in every way possible.

[Mr. Martin's prepared statement follows:]

STATEMENT OF GEORGE B. MARTIN, JR., VICE PRESIDENT, AMERICAN COTTON SHIPPERS ASSOCIATION

Mr. Chairman, I am George B. Martin of Memphis, Tennessee, Vice President, Special Projects of the American Cotton Shippers Association. I am accompanied by our Vice President and General Counsel, Neal P. Gillen of Washington, D.C. We appear here today to present our views concerning the present rail car shortage.

INTEREST OF AMERICAN COTTON SHIPPERS ASSOCIATION

The American Cotton Shippers Association was founded in 1924 and is basically comprised of merchants, shippers and exporters of raw cotton who are members of five federated associations, located in sixteen states throughout the cotton belt: Arkansas-Missouri Cotton Trade Association; Atlantic Cotton Association; Southern Cotton Association; Texas Cotton Association; and Western Cotton Shippers Association.

The 525 member firms of the ACSA handle over 80 percent of the domestic cotton crop and 90 percent of the export market. The Association takes an active part in promoting the increased use of cotton in the United States and throughout the world; establishes with other trade groups national and international standards for trade; collaborates with producers throughout the cotton belt in formulating farm programs, and cooperates with government agencies in the administration of such programs.

FUNCTION OF COTTON MERCHANT

Cotton merchants have a dual function of buying and selling cotton, including the assumption of the time, quality and price risks. The merchants purchase and assemble millions of individual bales of cotton offered for sale by approximately two-hundred thousand farmers producing cotton in sixteen states across the cotton belt. Over 18 varieties of U.S. cotton are produced in several hundred combinations

of quality and staple lengths (due to the various types of seed, soil, weather conditions, and harvesting practices.) The merchant classes each bale according to the quality factors and assembles the cotton of the same grade, staple length, color and character into even-running lots in warehouses at various locations in the different states. Cotton is sold to textile mills in spinner's markets in even-running lots at various times and delivery is made to locations designated by the various textile mills. The merchant also performs the function of storing and concentrating cotton and the financing of surplus spot cotton including the excess ginnings over consumption during the major harvest months.

ECONOMIC CONTRIBUTION OF COTTON INDUSTRY

Since 1960 the annual movement of cotton to domestic mills has ranged from a high of 9.5 million bales to a low of 5.8 million bales. Exports in this period have ranged from a high of 6.8 million bales to a low of 2.82 million bales, with the estimated figures for the current season ending July 31 at about 5.5 million bales. During this period approximately 225 million bales were moved, mostly by rail, to U.S. mills; and 80 million bales moved to U.S. ports by rail for shipment and export aboard ocean-going vessels. The cotton industry, Mr. Chairman, has made throughout the years, a substantial contribution towards the development and improvement of the U.S. railroad industry. We are greatly concerned with the deterioration in service in recent years coupled with record high rate increases which have impelled us to divert additional traffic to competing truck lines.

SHIPPERS SEEK ALTERNATIVE MODES TO TRANSPORT COTTON

Faced with continual rate increases and a continuing unavailability of box cars, cotton shippers find themselves forced to divert cotton shipments to truck transport.

Certainly the railroads must be aware of the steadily declining cotton traffic due to direct competition from trucks, particularly intrastate as well as from the Southwest to Southeastern destinations and to ports of exit.

In the 1961-62 cotton marketing year 73 percent of all cotton carried, moved by rail with only 27 percent moving by truck. In the 1970-71 season 64 percent moved by rail and 34 percent by truck. By the 1975-76 season rail movement had dropped to 53 percent with the truck share increasing to 47 percent. For the current marketing year ending July 31st, the rail movement is projected at only 32 percent with truck movement estimated at 68 percent. The rate of diversion has increased in direct proportion to the amount of freight rate increases. Since 1964 rates have increased by 100 percent.

We have provided this information to the Interstate Commerce Commission. In our reply verified statement submitted in Ex Parte No. 295, Increased Freight Rates and Charges 1973-Nationwide, we filed with the Commission detailed statistics evidencing a pattern of diversion from rail to truck shipments from 1950 through 1973. The figures show the rate of diversion during that period increasing from 2 percent to 50 percent; and in the latter part of the period, the diversion increased by larger proportions in direct relation to the amount of railroad freight rate increases. This claim is borne out by the fact that truck diversion increased by 25 percent between the years 1968 and 1973 while freight rates increased by almost 30 percent. We urged the Commission not to ignore these patterns. Unfortunately our concerns did not receive proper attention.

THE EFFECTS OF THE CURRENT RAIL CAR SHORTAGE ON COTTON INDUSTRY

In performing our service function on behalf of the American cotton farmer and the consuming textile establishments in the United States and abroad we have encountered the most critical rail transportation problem during the past season that can be recalled in recent decades. This past year we have harvested a larger than normal cotton crop whose timely delivery has been jeopardized for lack of adequate transportation.

Beginning in November of 1977 and continuing to date, general purpose boxcars of both the 40 ft. and 50 ft. variety have been non-existent for extended periods of time in many areas of the Cotton Belt stretching from the Carolinas to California. The most critically affected areas have been the Mid-South and the Southwest.

The lack of rail equipment has placed a tremendous burden on the trucking industry which cannot handle the volume that normally would have been shipped via rail. As a result, the cotton industry has suffered losses of untold millions in storage and interest charges, as well as contractual penalties for delays in many instances.

It is recognized that there are many factors contributing to rail car shortages which we will enumerate herein but the shortage of all types of equipment for

various industries, including ours, has not been explained to anyone's satisfaction. We can only conclude that there has been a gradual deterioration in rail services during the past years that has now reached a critical stage.

Our Association anticipated an impending problem as early as June of 1977 and endeavored to alert the rail carriers of our projected boxcar needs by holding meetings at various locations throughout the cotton belt (meetings are being conducted this year, with two already concluded, in Memphis, Tennessee and Harlingen, Texas). Last year, we received assurances from those rail carriers present that there would be ample equipment. Such was not the case. Cotton backed up in the pipe lines at warehouses and cotton gins and created severe congestion. Many domestic and foreign sales were placed in jeopardy and producers suffered depressed prices on their unsold inventories.

Our members have implemented major innovations in recent years to affect better boxcar utilization by performing heavy loadings with incentive rates. Also, the rail transport of cotton from gins to warehouses within the Mid-South and the Southwest was discontinued thereby releasing those cars formerly used in short haul operations.

We have taken every avenue of approach in attempting to explain the severity of this crisis. In the past few months we have come to Washington to testify before Subcommittees of the Senate Agriculture and Commerce Committees, the I.C.C., DOT and USDA. We have also expressed our concerns at ICC Regional Hearings in Atlanta and Memphis.

The crisis has finally been recognized and the ICC has been responsive, initiating prompt action through the issuance of various Emergency Service Orders. Numerous violations were uncovered by Commission investigations resulting in substantial fines in a number of cases. We commend the Commission for its direct role in obtaining some improvement.

Still scraping for cars at the conclusion of this marketing year we now face a new harvest starting with the first movement in the Rio Grande Valley in a few short weeks. We still have 1.25 million bales unshipped from last years crop and we face additional problems with an estimated 12 million bale crop from the coming harvest. If we cannot ship, our farmers will no doubt face the likelihood of depressed prices, their cotton cut-off from the market place. A large part of our problem is our dependence on general purpose boxcars. The large movement of grain combined with the limited number of covered hopper cars was largely responsible for our problems last year. We hope that this will not be the case again this year.

THE PRINCIPAL PROBLEM AREAS

In our judgment a number of factors have contributed to the gradual deterioration and eventual collapse in railroad service. The principal problem areas seem to be:

1. Poor distribution and utilization of equipment combined with violations of I.C.C. regulations and orders;
2. Poor management and operation of Conrail has resulted in an overall draw down in service of other rail lines;
3. Conrail's lack of sufficient locomotive power, and the down time for repair of locomotive equipment by other rail lines;
4. A decline in the supply of general purpose boxcars, the ratio of bad order boxcars increasing from 6.7 percent in 1968 to 15.6 percent in 1978;
5. Replacement of old general purpose boxcars with new speciality cars;
6. Failure to maintain boxcars resulting in dirty cars delivered for loading which are incapable of being placed in appropriate condition by shippers agents;
7. Increased use of 40 foot boxcars for shipment of grain when large crops result in shortage of covered hopper cars;
8. Severe weather conditions the previous two winters seriously impaired the operation of a number of rail lines principally Conrail; and the
9. Failure of the railroads to restore to service the thousands of 40 foot boxcars which have been abandoned on rail sidings throughout the country.

SUGGESTIONS FOR IMPROVEMENT IN RAIL SERVICE

In our opinion, there are several measures that can and should be taken to help relieve the present boxcar shortage and to ensure that adequate equipment is provided. We recommend that:

1. The ICC continue to closely monitor railroad operations to make certain that car distribution and allocation orders are enforced, and that cars are made available to the cotton industry throughout the entire year;

2. Pursuant to its authority under Part I, Section I of the ICC Act, the Commission issue a Service Order, to be effective immediately and for the duration of this emergency, permitting carriers the free substitution of cars measuring up to 53 feet for the 40 foot category of cars, protecting and thereby providing the same weights and rates when the 40 foot cars are not available;

3. That the Commission investigate promptly the possible discrimination by some railroads in their giving priority to competitive loading origins rather than filling car orders in the sequence received;

4. Repair of bad order cars be expedited, especially those capable of restoration with minimum funding; and

5. That revenue demurrage be applied in those cases where cars under load are not pulled promptly.

To help resolve our own long range needs we recommend that the U.S. Department of Agriculture initiate and maintain a close liaison with the Interstate Commerce Commission in order to communicate present and projected needs of the cotton industry. We also recommend that an investigation be conducted by the USDA, ICC, DOT and the Association of American Railroads to determine the following:

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2. Projections for the acquisition of new covered hopper cars in order to provide an adequate fleet of grain cars thereby eliminating their use of 40 foot boxcars vitally needed by the cotton industry;

3. Whether railroad holding companies are devoting revenue from rail operations toward non rail ventures;

4. Whether funds designated for equipment acquisition and maintenance are being diverted to general operating expenses;

5. Whether current laws are effective toward increasing the ownership of and improving the maintenance of rail equipment;

6. Whether the revenue derived from the ownership and use of rail equipment is a sufficient incentive to secure new equipment; and

7. Whether there should be a modification of existing rules to the end that a more reasonable portion of such funds are allocated to the restoration of abandoned and bad order boxcars.

CONCLUSION

Mr. Chairman these hearings have presented the Subcommittee with a significant challenge to find solutions for what we hope are not insoluble problems. The implementation of our recommendations and those of the other organizations appearing at these hearings will hopefully alleviate the present chaos in rail transportation. Our experience tells us that the solutions to these problems are not to be found in rate increases, absent improvement in services.

On numerous occasions, in testimony before the Congress and in protests to the ICC we have observed that the concept of seeking profit through efficiency seems to have vanished from the minds of those responsible for the operation of America's railroads—Railroad Management, Union Officials, Government and the Regulatory Agencies. The Commission's continual soul searching and then acquiescence to the perpetual rate increase demands of the railroads does nothing but prolong the crisis.

How long we ask, must the interested public (producers, shippers and the ultimate consumers) protest the failure of an industry and its regulators, to solve its problems by means other than increasing rates? Unless the issues are promptly faced the Nation's railroads will continue to shuttle from crisis to crisis.

Mr. Chairman, we appreciate this opportunity to appear here today and we will endeavor to be of assistance to the Subcommittee and staff in every way possible.

Mr. MADIGAN [presiding]. Thank you.
Which railroads?

Mr. MARTIN. The Southern Pacific, the Burlington Northern which we have called Fort Worth and Denver, the Santa Fe, the Illinois Central, the Southern, and the Family Lines. And then you have some connecting carriers like the Frisco and the M.K. & T.

Mr. MADIGAN. Some of those railroads which you mentioned are the Federal.

Mr. MARTIN. Yes, sir.

Mr. MADIGAN. Still, I have a memorandum here in front of me that would indicate that in bulk in 1961 and 1962, 73 percent of all the cotton moved by rail, and in 1975 and 1976, it was down to 53 percent. It is estimated that this market will be only 32 percent. So that from 1962, it has dropped from about three-fourths to less than a third of the cotton is moving by rail.

That would seem to suggest, in a convoluted sort of way, the railroads are making money, but not transporting cotton. I wonder if cotton is one of those commodities where they are required to haul the commodity for less than what they would be able to haul it in some other way? Is cotton in that classification?

Mr. MARTIN. I would say not, sir. I am not aware of any railroad that is not actively soliciting the movement of cotton.

I mentioned this in the report we have. Recently and within the last 2 years, we have made cotton even more attractive by loading it with heavy weights in boxcars. We have eliminated short hauls on cotton and, to my knowledge, Mr. Chairman, there is no railroad that was not interested in shipping cotton all of the time.

The thing is this. The times have changed considerably because of the rates having been increased. I didn't mention this, I skipped this paragraph, but around 100 percent. We have been told that the revenue ratio for cotton has been excellent, and I am not in a position to speak for the railroads but I do know that as a comparison other than grain, and some other commodities in 1975 the rail movement of cotton was something like \$54 million.

Mr. MADIGAN. Mr. Gillen, did you want to say anything?

Mr. GILLEN. I just wanted to add for the record, Mr. Madigan, that you have made in your mentioning of noting the diversion from rail transport to truck transport, the significant nature in a particular time period that our statement notes that in our ex parte 295 we noted to the Commission a detailed analysis of diversion which was directly proportionate to the increase in rates during that time. It was only 3 or 4 years later and maybe 10 subsequent increase requests later that the Commission started to note or take recognition of that particular trend.

So in many instances we have been impelled to seek other modes of transportation against our best interests because our industry has been set up, or our warehouses and our textile mills have been initially established, to move our product by rail and we have a natural preference to do that.

Mr. MADIGAN. As far as the suggestion that rate increases will be concurred until they surface, we are dealing with one of the railroads you mentioned, Mr. Gillen, which was Southern, and I have been forced to learn a little bit about the Illinois Central.

Absent the rate increases, they don't have maintenance crews. If you don't give them the rate increases, they are not going to be able to make improvements.

Mr. MARTIN. I will address myself to that.

Of course the Illinois Central has had the most severe boxcar shortage of any of the services that we have used for this season just ending. There have been two carriers, the I.C. Gulf and the Santa Fe that do not have the equipment to handle what they wanted. They originate but could not obtain cars from their adjoining carriers.

That is their livelihood in Mississippi; cotton.

Mr. GILLEN. Mr. Madigan, we feel that the railroads should make a profit like every other person involved in free enterprise in this country. The only caveat we would add to that general philosophy is that we don't mind paying increased rates provided the service is there and it has been our experience that with some lines this is certainly not the case.

Mr. MADIGAN. Thank you very much, Mr. Martin and Mr. Gillen, for waiting so long. We appreciate your staying.

Mr. Wheeler.

STATEMENT OF EDWIN M. WHEELER, PRESIDENT, THE FERTILIZER INSTITUTE

Mr. WHEELER. Mr. Chairman, I don't want to deprive the staff of overtime pay, so I will try if I might, with the Chairman's permission, to have my full statement put in the record and I would like to visit with you briefly following the famous rule of Madigan if you can poll the committee to see if that is all right.

So, if I may, could my statement be inserted in the record at this point?

Mr. MADIGAN. Since I am the only one here that could object and since I am not going to object, your statement will become a part of the record.

Mr. WHEELER. Let the record reflect the motion carried, 1 to zero.

Mr. Chairman, this is the fourth week of hearings that I have attended on this question of freight car shortage, and that does not take into account several hearings held by the ICC, all of which have generated reports of varying size, none of which have been shipped yet due to the car shortage.

I wanted to set the record straight, therefore, this afternoon to make sure this subcommittee understands the extent of the shortage and what is really happening in American agriculture. I would have to tell you, candidly, in all the hearings we are extremely disappointed that the administration's policymaking group in the Department of Transportation has avoided the question of freight car shortage and the only bill, to the best of my knowledge, introduced in the U.S. Senate, for example, is a rate change. But the administration, so far as the Department of Transportation is concerned, is doing absolutely nothing in coming to grips with the shortage that the Secretary of Agriculture says now is running at about 30,000 unfilled freight car orders a day. And by freight cars, I hope the Chairman and I communicate with one another on this point that we are talking about hoppers and boxes, but mostly hoppers; so it has been a disappointment that the policymaking group, the Department of Transportation, has done virtually nothing to come to grips with this issue.

On the other hand, Chairman O'Neal, at the ICC, has tried to effect some relief of the situation. But, Mr. Chairman, it is fair to say that when you are short 30,000 cars a day for loading in just the agricultural area, the service orders have the effect of three loaves and two fish, without the benefit of Divine intervention. So the service orders—the Congress does not seem to understand this or does not want to understand it—the service orders do nothing

but reallocate the shortage. It is just that simple. The cars are not there.

Our industry, on an annual basis, and I am talking about the data that is available to us now as of June 30, 1978, sold to the American farmers 50 million tons of fertilizer. In addition, we exported 20 million tons.

We paid the rail carriers about a billion dollars in freight revenue. Of this 70 million tons of material, about 80 percent of it moved by rail and cannot move by any other mode. We have been plagued with shortages and indeed, the ICC gave us favorable treatment to assure hopper cars moving back to Florida, the central point of U.S. phosphate supply for the Corn Belt and for particularly your State of Illinois.

Mr. Chairman, there is not any doubt we have a justifiable interest in the cause now pending before the Congress.

I want to turn now to the thing that plagues me the most, and I have provided your staff with my testimony. If the Chairman would be so kind, would you glance at page 7 of the prepared testimony, for I want to make two points.

I have set out the growth of domestic U.S. sales of fertilizer. The year I became president in 1968, the industry was moving in the 35 to 37 million ton range to our farmers. By now it is clear that we are at a 50 million ton base, and we forecast that in 1979 we will sell 53 million tons of material if we get the railroad cars.

We are a growth industry. We have just finished investing nearly \$3 billion in new facilities to be sure that we would never have the problem we had in 1974, which the Chair is quite aware of, when we had a severe fertilizer shortage.

The carriers, Mr. Chairman, were consulted all the way through this expansion to be sure that they understood we had to have sufficient cars to move this new volume. They were taken into complete confidence by our various producers so that they could plan ahead. But we might as well have been talking to the attractive young man about 10 years of age with the camera here a while ago for all that came from it.

Now let's turn to page 8, because the Chair is well aware of what is going on in the U.S. farming community. In 1963-68, in that 5-year period U.S. agricultural exports hovered fairly close to \$5 to \$6 billion worth of products and we were exporting, as the figures show, from 53 to 56 million tons of agricultural material.

Now, Mr. Chairman, take a look at what has happened in the last 5-year period. This year we set the all-time high of about \$26 billion worth of farm products, and I think now it is going to come in at \$27 billion and are moving 116 million metric tons into export. But the tragedy of all this is the transportation system of the Nation has not kept pace with either the fertilizer growth, which is a progenitor of crop output, or with our agricultural export traffic.

We see no evidence of two serious propositions, something the committee can do something about. First, we do not believe that in its wildest day any administration will do anything but encourage farm exports, if for no other reason than the near panic on the international market as to the U.S. dollar's lack of value. Exports

of farm products must increase or the dollar will rival the value of the German mark during the Weimar Republic.

Second, this continual outpouring of farm product will require additional outpouring of farm inputs in the way of fertilizer, fuel, and supplies to our farmers. Therefore, any person with any vision can see we must plan for growth, and, candidly, we do not see that plan for growth by either the carriers or our own Government.

Therefore, we think that rather than quarrel and quibble on the various and sundry service orders, that the patient is in need of a catharsis, and we have suggested at page 10 certain suggestions which is not under any circumstance to be construed as being compared with the invention of the wheel. They are suggestions, and, candidly, Mr. Chairman, they are prayers for action, not another report, because we are swamped by reports by almost every committee in the Congress.

We have got to be able to meet the demands of the eighties, knowing full well there is nothing this committee or anybody else can do about the tragedy that is going to loom this fall. We have told our industry, as we will tell you here today, that in the fall of 1978, we will experience the most critical car shortage that we or the farm community have experienced. It is going to get worse; it is not going to get better.

Therefore, turning to point 3 at page 10, we think that part of the solution to this thing is to change the Nation's tax laws, recognizing it is not within the jurisdiction of this particular committee, but we make this plea to all of them. We believe that very, very fast tax writeoffs or acceleration should be given to both the carrier and industries like ourselves to encourage greater car ownership. We currently have under lease or own 15,000 tankers and 8,500, 75- and 100-ton hopper cars year round when we lease the maximum we can obtain.

The number of leased hopper cars, of course, rises very fast on a short-term basis, but in any event, we think the Congress ought to give special treatment because this is a special problem for fast writeoffs as to cars regardless of who the owner is.

Second, as the chairman has been told by my staff member, Mr. Myers, in the last election I voted for Genghis Khan because I wanted to be sure we had somebody in the White House that was far enough off to the right, so I don't want anyone accusing me of being a Socialist, but this same treatment must be given to locomotives on fast tax writeoffs.

The point I make at points C and D in addition to considering a carpool to be used in emergencies, such as the Canadian Wheat Board has, the U.S. Government ought to consider an emergency carpool and a locomotive pool, because I know in the last 2 days the witnesses have repeated time after time the delays this year have been occasioned due to want of power.

We had the first snowstorm that ever struck the Nation's railroads this year, and, therefore, we have had high locomotive failure. But we should consider, along with the carpool, a locomotive pool.

The second point of catharsis that I would recommend to the committee and one that it can do something about is this question—I believe Chairman O'Neal touched upon it—of reversed de-

demurrage. The chairman asked the witness two witnesses ahead of me about take or pay. Mr. Chairman, in a way demurrage is a take-or-pay proposition with the shipper always paying. Always.

So we wonder, shouldn't consideration be given by the ICC or the professional staff of this committee to study the proposition that when a carrier has an empty car released back to him at Lincoln, Ill., and it sits there for 2 weeks, should the carrier not be penalized for not pulling that car? If a shipper at Lincoln, Ill., was awaiting the arrival of a carload of potash and it should be there in Carlsbad, N. Mex., in 5 days and he is now in the second week and learned that the car went to Memphis or is somewhere around Clovis, N. Mex., should not the carrier be penalized a demurrage-type charge to be able to not deliver it in the reasonable time?

Now this kind of shocks people, but this is a shocking situation and we think one that ought to be looked at always of course, Mr. Chairman, emphasizing this is not the invention of the wheel but merely suggestions and a point of departure.

I have urged the committee to do what it can on this thing as quickly as it can, even though we are all practical men and recognize that the 95th Congress is beginning to close out consideration of any new subjects. But believe me, Mr. Chairman, fortunately it is going to occur after the election, we are headed for a car crunch this fall that is going to boggle the mind and is going to have people very, very angry. So that I hope when the Congress opens in January that the testimony that has come in in the last 2 or 3 days can be used as a basis to finally begin to solve the freight car shortage and not to enhance the printers of the city by publishing further reports which produce not a car.

Thank you.

[Mr. Wheeler's prepared statement follows:]

STATEMENT OF EDWIN M. WHEELER, PRESIDENT, THE FERTILIZER INSTITUTE

Mr. Chairman and members of the Subcommittee, by now you've about been worn out on the rail car shortage so I shall not belabor your patience—beyond the maximum needed to set the scene for our industry. We are not only major users of rail transport—growing users—but are absolutely dependent on this mode, for as far as one can see into the future.

Currently the U.S. fertilizer producers are capable of producing about 19 million tons of anhydrous ammonia (nitrogen) which require us to own or lease 15,500 rail tankers as the carriers do not furnish any of this equipment. We have not experienced any particular shortage of this equipment these past few years.

However, dry urea production of about 3,500,000 tons and ammonia nitrate 4,550,000 tons primarily move in closed hopper cars. Likewise, tremendous tonnages of phosphates move by rail. For example, the U.S. industry is mining phosphates at about a 50,000,000 ton annual rate. This product is upgraded both at the mining sites as well as in many areas of the nation. Principal mining areas are Florida, North Carolina, Tennessee and Idaho. This product is moved in owned or leased hopper and box cars as well as carrier-owned equipment.

The third nutrient, potash, originates principally at Carlsbad, New Mexico with 70+ percent of U.S. consumption being supplied from the mines located in the province of Saskatchewan, Canada. Nearly all of this product moves in closed hoppers.

Phosphates, potash and mixed material move in the industries owned or leased 8,000+ closed hopper cars, plus a tremendous amount of rail-owned cars of the same design and in addition, we use a substantial number of plain 40 foot box cars. Overwhelmingly the material is shipped in bulk for bagged fertilizer is little used today.

For the fertilizer year just ended as of June 30, 1978, we sold to the American farmer about 47 million tons of material whose value was well in excess of \$6

billion. Our payments to the rail carriers was approximately \$1 billion. We are, therefore, a major customer of the carriers and vice versa. We have been plagued with car shortages this year.

Let us offer our views on the "whys" of the shortage. As one can see, we "compete" for the same cars as does the grain trade for the 75- or 100-ton hopper car is ideally suited for bulk commodities. We, like grain, are seasonal, that is when the weather is ideal for planting the demand is fierce; when the weather is ideal for harvesting, the demand is also usually fierce. Human beings do not stay the weather, thus, our farmers at the many stages of his activity are directed by climatic conditions. Our farmers and our dealers have added greatly to their respective storage facilities but as briefly described above twelve month uniformity of movement is well nigh impossible.

Our industry has diligently encouraged farmers to apply phosphates and potash immediately upon crop removal to encourage a more rational transport-supply situation. Nationwide, 35 percent of the fertilizer is now applied in the Fall and 65 percent in the Spring. The largest crop-user of fertilizer is corn and we now have nearly 45 percent of this crops needs in the Corn Belt being applied in the Fall. This has helped but as you will see in a moment, it has not been enough.

Our farmers had a difficult slow Fall harvest of corn and soybeans, so much so that they were nearly precluded by rain and snow fall from post-harvest field work. In the wheat country where substantial quantities of fertilizer should have been used in September and October, great dissatisfaction at low prices, American Agriculture Movement calls for strike and full parity discouraged fertilizer use. Bluntly, our industry was far behind as we came to January 1, 1978. Yet, exports of phosphates soared so that in Florida we were having grave difficulty obtaining cars. This is reflected in Table I:

TABLE 1:—SUMMARY OF CAR SITUATION REPORT OF CARS ORDERED NOT PLACED

| Date | Boxes | Covered hoppers |
|---------------|-------|-----------------|
| Jan. 6, 1978 | 93 | 376 |
| Jan. 13, 1978 | 186 | 655 |
| Jan. 20, 1978 | 47 | 1,506 |
| Jan. 27, 1978 | 90 | 816 |
| Feb. 3, 1978 | 156 | 1,182 |
| Feb. 10, 1978 | 65 | 732 |
| Feb. 17, 1978 | 59 | 573 |
| Feb. 24, 1978 | 169 | 568 |
| Mar. 3, 1978 | 215 | 761 |
| Mar. 10, 1978 | 215 | 1,048 |
| Mar. 17, 1978 | 223 | 780 |
| Mar. 24, 1978 | 341 | 898 |
| Mar. 31, 1978 | 446 | 2,016 |
| Apr. 7, 1978 | 401 | 1,979 |
| Apr. 14, 1978 | 392 | 2,708 |
| Apr. 21, 1978 | 398 | 2,118 |
| Apr. 28, 1978 | 213 | 2,409 |

¹ Does not include very serious shortage of potash cars on the Canadian railroads.

The real immediate culprit, however, was the grain export demand. Ordinarily, wheat exports move heavily in the last three months of the year. But all of us, including the railroads, the grain and fertilizer industry were tossed a curve ball as is shown in Table II:

TABLE II ¹

| | June–November | December–May |
|---------|--------------------------|--------------|
| 1976–77 | ² 559,260,000 | 390,600,000 |
| 1977–78 | 514,395,000 | 585,606,000 |

¹ Source: Milling & Baking News, Jan. 24, 1978.

² Bushels of wheat.

Please note that the December 1977–May 1978 shipments were nearly 200 million bushels of wheat higher than they were a year ago for the same and a more "normal" period or pattern. Feed grains, principally corn, were likewise setting weekly export records. Restated, the United States was on its way to a record-breaking \$26–\$27 billion in farm exports and this obviously put an all-time strain

on our rail transport system. Barge traffic, which is vital to the export trade, could not participate in this movement until early April due to the frozen rivers.

Thus, by January we knew the wheat export picture was a far departure from the norm and fertilizer deliveries were a full 20 percent behind. Old man Winter did the rest. Faced with unprecedented tonnages to be moved in a relatively short period of time and crippled by a record round of bad weather, the scene was set for what has proven to be the worst shortage of cars in modern times. Worse, the weather caused serious locomotive outages and this really compounded all the other problems to the "Nth".

I have been very critical of the railroads where I felt it was due, but in all fairness, one can see they are not without several bona fide defenses in the current situation.

What can the Subcommittee do? Where do we go from here? Is the growth in traffic volume or the indicia thereof large enough to encourage the carriers, shippers and/or government to expand the car fleet? Can we discuss the locomotive situation without being accused of being Socialistic, advocating Nationalizing or worse? Something can be done if reasonable men will look at the future and try to resolve the problems already present and those manifested by the evident trends.

Let us look at fertilizer or the progenitor of U.S. farm output.

TABLE III.—U.S. fertilizer¹ consumption

[Million short tons]

Fiscal year:

| | |
|-----------------------|---------|
| 1968..... | 37.0 |
| 1973..... | 43.3 |
| 1974..... | 47.1 |
| 1975..... | 42.5 |
| 1976..... | 49.2 |
| 1977..... | 51.6 |
| 1978 (estimated)..... | 47-49.0 |
| 1979 (estimated)..... | 53.0 |

¹ Source: Fertilizer Institute Data.

I purposely picked 1968 as the starting point for Table III because that was my first year as a member of The Fertilizer Institute's staff. U.S. domestic fertilizer consumption, just in this ten year span, has risen from a base of 35 million tons to what we now believe to be a new base of 50 million tons. Exports of phosphates show similar growth, for example, in the year ending June 30, 1978, our phosphate rock overseas movement will be about 14.5 million tons and finished material (Triple Super Phosphate, Diammonium Phosphate and Monoammonium Phosphate) will approach 5,200,000 tons or a new record. These phosphate exports will bring well in excess of \$500 million in hard currency. This export traffic is almost all dependent upon rail deliveries. Like grain, ships being delayed for arrival of rail bound cargoes have been frustrating, expensive and gives our nation a black eye for undependability. We simply don't meet our shipping schedules due to lack of rail equipment.

Therefore, if one follows the "trend line", as indicated, it is clear that U.S. fertilizer consumption is quietly inexorably rising at about 3-5 per cent per year on a compounded basis. True, we swing slightly above the line one year and slightly below the line in others, but, the trend is always up. We are not only a growth industry but will always be ever larger user of rail transportation.

Let us look at another indicator—farm exports—or U.S. farm surplus production, if you will.

TABLE IV.—U.S. AGRICULTURAL PRODUCTS

| Calendar year | Dollars (millions) ¹ | 1,000 metric tons ² |
|-------------------------------|---------------------------------|--------------------------------|
| 1968..... | 6,228 | 56,312 |
| 1973..... | 17,680 | 108,156 |
| 1974..... | 21,999 | 92,635 |
| 1975..... | 21,884 | 98,512 |
| 1976..... | 22,997 | 110,857 |
| 1977..... | 23,671 | 106,057 |
| 1978 (estimated) ³ | 25,500 | 116,000 |

¹Source: Table 1, p. 1, U.S. Foreign Ag Trade Statistical Report, calendar year 1977.

²Source: Table 36, p. 343, U.S. Foreign Ag Trade Statistical Report, calendar year 1977.

³USDA News Release, June 1978.

Again the trend lines point steadily sharply upward—true, a few dips below an occasional soar up but the export “line” is up. It must continue to climb or the nation is in serious trouble. We are no longer a self-sufficient nation. Growing need for raw materials from oil to ore are self evident. From TV sets to titanium we must import. Yet, our failure to generate sufficient off-setting exports is evident by the near panic in the international money markets. Our “thing” is agricultural exports. U.S. farmers are easily able to produce 65 percent more wheat than we need, 25-30 percent more soybeans, cotton and corn than the domestic market can absorb—yet, our overseas customers want these products. I firmly believe that no Administration, no Congress will take action in the declining dollar growing export arena except to encourage an enlarged out-pouring of our food/feed grain/fibre expertise.

As the emerging nations grow in fiscal ability they are strong potential customers; as the European Economic Community slowly placate or adjust to their relative agriculture inefficiency; as the world population (foremost the Eastern bloc) demands a better higher protein diet than American food and fibre exports simply will not be stayed.

For many, many reasons American exports of agricultural products will continue their inexorable rise. So too will the growth of our products for they are the progenitors of a bountiful harvest. Commercial fertilizer accounts for 30-40 percent of the nation's food output.

As demand for more of these farm products advance, the inputs will grow in lock-step. We must, therefore, plan our rail system with boldness to move these growing tonnages.

We come now to our requests to the Subcommittee:

1. We implore the House Committee on not to let this be just one more of the dozens of hearings on car shortages from which there are no meaningful actions;

2. Blame for the current and past car shortages in not the point. What is to the heart of the matter is what should we do looking to the 1980's;

3. We strongly recommend that:

a. Very fast tax write offs or accelerated depreciation be given to the carriers and to shippers who are willing to invest in new equipment. “Fast” is meant to be not more than five years.

b. In the same vein, locomotives should be given as favorable or better treatment than rail cars.

c. An emergency pool of hopper cars (5-10,000) should be created to be owned by the Federal government and leased to the carriers or shippers at the then rate of per diem and mileage charges as though the cars were privately owned.

d. Similar study and consideration should be given to supplement the locomotive fleet. All the cars in the world without power to move them are for naught.

e. While it is painful to the carriers, the Subcommittee should direct either the ICC or your staff to study whether a reverse demurrage concept should now be imposed. By the demurrage concept only the shipper is penalized for failure to either promptly load or unload carrier-owned equipment. Would not equity impose a penalty on a carrier who fails to move loaded cars on time or promptly pick up empties when released by the carrier? We as major shippers are frustrated beyond measure when we promptly unload and release a car only to see it remain on the siding for days and days. Yet, at the same time, we can't get more incoming loaded cars due to a shortage. Turn around time is getting longer not shorter and we believe the only way to reduce this figure is by a momentary penalty. We do not say reverse demurrage is the solution, but we do say it “could be” until we see something tangibly better.

I trust the Subcommittee understands that our chief concern is a bold solution to a problem as old as the ICC itself. I think that the "plight" of the railways has been oversold. There are areas where rail bound traffic is growing and it will continue to enlarge. All of us as shippers, government and carriers need to focus anew on strengthening the rail system where it not only does best but where the nation cannot do without it. Clearly, the bulk commodity area is one where that focus ought to be. Coal, grain, fertilizer transport and use are outstanding examples and will grow. We ask the Subcommittee to boldly encourage this much needed and nationally sound expansion.

Respectfully submitted.

EDWIN M. WHEELER, *President.*

The Fertilizer Institute (TFI) is a nonprofit corporation commonly known as a trade association. TFI represents a broad segment of the industry from producers, manufacturers, retailers, broker/traders, and equipment manufacturers. TFI's membership represents in excess of 90% of all U.S. fertilizer production and includes both investor-owned as well as cooperative organization.

Mr. MADIGAN. Thank you, Mr. Wheeler.

It was said that some freight minds run in the same channel. Your statement coincides with an idea that the gentleman on my right has previously had about the creation of a Government-owned supply and emergency supply of railroad cars.

I have been giving that a lot of thought, and we were discussing it up here a while ago. One of the concerns that comes up is not to expect such an operational profit. We go into it with our eyes open, but if we create a pool of 10,000 cars, does that guarantee that there will be, 6 months later, still that additional 10,000 railroad cars or might there only be 8,500 cars as a result of 1,500 of the cars previously owned being put out to service?

Mr. WHEELER. You mean because of retirement?

Mr. MADIGAN. Because of retirement and methods of repair, the railroad intends to operate the Government-owned cars. Might we not ultimately have that situation?

Mr. WHEELER. I think that can be handled, Mr. Madigan, by the rates set and who rented them to prevent the carriers from saying we have an Uncle Sam Hertz down here renting us the cars. I think it is a matter of how you would set your rate schedule up to who can pull those cars out of storage.

For example, let's assume we have 10,000 of them in storage and no business; the Government has them now. I can easily see where you would file a quick request with either DOT or the ICC to pull them out on short-term lease, and I think the terms and conditions under which those cars came out could overcome the problem of Uncle Hertz being in the rail car business.

It is like anything else we do; it could be done by economics, which would penalize them for long-term lease or penalize them if they had over x percent of an Uncle Hertz in their fleet active.

It is a matter, I think, of working out the details, but certainly, Mr. Chairman, it is not without precedent because this has been done extensively in Canada for the very simple reason that Canada is very dependent on wheat exports and they got into the situation we are in; they became known in the world trade as undependable; they could not meet the shipping schedules. And by that I mean the vessels are waiting at Vancouver.

People testified before this committee complaining about the demurrage bill, but this spring we had ships waiting to take fertilizer out of Tampa, Fla., were waiting 3 weeks and the demurrage

bill is about \$10,000 a day. This causes the telephone to come off the wall up here in Washington to get us some cars. Again it is economics because I guarantee you the boys that have been in line waiting down there have got the first trainload of material that came in and we could handle this thing the same way here on when those cars came out who was eligible to get them.

Mr. MADIGAN. How do you envision even those cars to be maintained?

Mr. WHEELER. The same as we do for our own cars. We have at least 6,000 owned, plus a couple thousand more leased, and you contract the maintenance of those cars to North American Car Co. and, indeed, some of the railroad companies will maintain them for you on an agreed contract charges.

Mr. MADIGAN. Did he win?

Mr. WHEELER. No, but he ran a fast last.

Mr. MADIGAN. Any other suggestions that you or Mr. Myers have?

We are going to be putting together some amendments to the branch line bill that has been pending before the subcommittee now, so if you have any further thoughts or if your organization has any thoughts—

Mr. WHEELER. We would be pleased to comment on that because, as you know, in the district you represent the bulk of our fertilizer tonnage terminates on branch lines and this is the reason we supported the bill last week before the Agriculture Committee, to direct the Secretary of Agriculture to prepare the data. But we insisted that that data on the branch line show the incoming traffic as well as the outgoing traffic so that we get a fairer picture of what is happening on the branch lines because the tonnages moving inbound is great.

The other problem we have, Mr. Chairman, many of our branch lines now are posted against using the 100-ton hopper car because the bridges can't handle that car. So refurbishment or at least some modicum of safety has to be considered when that branch line bill is prepared because the carriers and ourselves, candidly, like the 100-ton hopper car much better than we do the 50 or 75 tonner. But there are many States, and they have to be careful because the receiver in Illinois is on a branch that cannot accept that car.

Mr. MADIGAN. We are to allow those branch lines ultimately to be abandoned, looking to other ways in the country and township roads that replace the railroads. In our State the director of transportation has said the cost to the Illinois Department of Transportation for upgrading the bridges and upgrading the roads up to the weight limit to be in excess of \$2 billion in our State alone. So we are looking at the expenditure of vast sums of the taxpayers' money if we are going to properly invest in transportation needs and I think it is important that everybody realize that.

When I mention the branch line bill, I am not thinking only of branch lines as we see it but as the other things in that bill.

In any event, we appreciate your coming. We appreciate your staying so late.

Mr. WHEELER. Thank you.

Mr. MADIGAN. Mr. McQuiston.

We hope you are last.

**STATEMENT OF PAUL G. McQUISTON, EXECUTIVE VICE
PRESIDENT, SOUTHERN HARDWOOD TRAFFIC ASSOCIATION**

Mr. McQUISTON. We are getting kind of close there.

Thank you, sir. You see I am alone, so we won't take up too much time.

Mr. Chairman, I do have a prepared statement and a somewhat lengthy statement I would like to introduce into the record and at this hearing give you a very detailed but very short summary of my points.

I am Paul G. McQuiston, executive vice president of Southern Hardwood Traffic Association, with headquarters and general offices at Room 1000, Commerce Title Building, P.O. Box 3057, Memphis, Tenn. 38103.

I am testifying on behalf of Southern Hardwood Traffic, a quasi-trade association duly organized and existing under the laws of the State of Tennessee and for the Southeastern Lumber Manufacturers Association, a trade association headquartered in College Park, Ga.

SHTA has approximately 205 members scattered throughout the United States. We have long since outgrown our name as to the southern region and the species of hardwood. We have members scattered all the way from California to Maine and from Michigan to Mobile and in between. We have district offices in Louisville, New Orleans, and Memphis furnishing traffic service on lumber and related commodities. We function something like a traffic department for these companies who cannot afford their own.

In our participation in these regulatory hearings and before the ICC and this subcommittee today we also are interested in and we have assisted our members in securing of empty cars, which has been a problem for them, a substantial problem, and we are dealing today in my statement not only with the cars that have been mentioned but also the boxcars.

We are principally interested in 50-foot double cars to some extent, 40-foot cars and also hopper cars for wood chips, which is a critical item and many of our mills are experiencing difficulty in getting sufficient cars for this.

The paper industry comes in with the wood chip cars used to transport chips to them. The other cars are hopper cars; I mean the gondola cars for logs.

We heard the statement here today about steel, but our logs and our cross-ties and switch ties move in the gondola cars. Then we have the bulkhead flat cars, which is very important and has been a lifesaver for the lumber industry. We are vitally interested, therefore, in improving freight car utilization and improving the national car shortage.

My written statement goes into some detail, and here I will try to narrow my remarks down. Some of these have been reported on before. There are several items that have not been brought up and I want to give special attention to them.

I think this is something that needs to be punctuated to make it more of an incentive for the railroads or else some type of reversed demurrage, as the gentleman said before me. Our shippers, for

many, many years, for as long as the railroads have been in existence I suppose, have been subject to the national uniform demurrage tariff 4-K which provides for penalties when they hold the cars beyond the free time. There are no ifs ands or buts about it and they either pay or are subject to prosecution. Shippers feel if the railroads are forced to pay into the Federal Government or wherever these funds are to go, if they are guilty of holding cars and not performing with reasonable dispatch and upon reasonable request to fill orders, we think these appraisers have just about gone out of existence and yet they are part of the ICC in regard to the duty of the railroads to perform service to the shipping public.

Another point that has been brought up here has been the AAR car service directives and Interstate Commerce Commission directives.

I cannot say for sure, but it seems that a lot of cars are moving back and forward empty when they should be moving loaded. The gentleman said ahead of me we are really allocating shortages from one section to the other. If a shipper of a car has not seen his car for several months, certainly he wants it back to supply his own shippers on his own railroad.

These things are necessary, however; these movements of empty cars back and forward are adding to the cost of the railroad's services and consequently, they are being prorated back to the shipper and he has to pay for this, you might say, unnecessary transportation. It all goes into their variable costs or they are fully allocated costs, all of which they go by when they decide the rate levels of the various commodities.

It has been suggested today that the general ex parte increases which they—the railroads—go to the Commission for authority to impose on the shipping public are necessary. Inflation is here and we have got to live with it.

Now if I could just mention these quickly. Ex parte 241, which is entitled "Adequacy of Railroad Car Ownership and Utilization." We feel that this should be reopened and the ICC should investigate the needs of all types for equipment, not just the two to three types that were included in this proceeding and toward the establishment of definitely how many cars are needed by the various different commodity groups, the small, the large. Something like a census of transportation might be effective here and the establishment of a national free-running pool of cars not only of the boxcars of which we have one today in the rail-box and a boon for the railroads but something similar to this may be the only answer we have.

The ex parte 252 was entitled "Incentive Per Diem Charges on Boxcars, Sub No. 1, and on Gondolas, Sub No. 2." This has been discussed. The only thing that we say is this should also be reopened to include the bulkhead flat cars and your open top hopper cars because they are just as important to our industry and incentive per diem is just as effective here as it is on boxcars or the gondolas.

Now there is ICC case No. 36934, "Time and Mileage Per Diem Allowances on Certain Non-Railroad Owned Freight Cars." I have not heard this mentioned today. This has just been put before the ICC and there has been no procedure dates announced. Why should

the railroads pay mileage per diem allowances to each other for the use of their cars and not pay the shipper for cars which he owns or leases and uses to move his own goods, thus saving the railroad the investment and cost of supplying this equipment? All types of cars supplied by the railroads that are also supplied by nonrailroad owners should be included in this car hire rules and per diem payments.

There is a House bill 13503 just introduced by our Chairman here, Mr. Rooney. This bill would lift the import tariff on foreign-made hopper cars, gondola cars and boxcars. Now this has not been mentioned today.

We are absolutely for this. The only thing we say is it should be amended to include bulkhead flat cars, because I know from my own membership that there are U.S. railroads and U.S. shippers that have leased bulkhead flat cars of foreign ownership. We feel that bulkhead flats should be included in this lifting of the import tariff on these cars made in another country.

The 18 percent ad valorem tax quickly destroys the advantages of leasing foreign cars and the 2-year time limit is certainly in keeping with the backlog of orders which we understand is prevalent with the various freight car builders.

The fleet of ownership of revenue freight cars continues to decline, and I have this listed on page 9 of my statement. In every category, the figures show that as of June 1, 1978, compared to June 1, 1977, that ownership of rail cars is declining; boxcars by 37,842 cars, or 8 $\frac{1}{10}$ percent. The hopper cars are down by 10,221. That is the open-top hopper cars. That is on page 9 of my statement.

These are critical areas, I think. Also the gondola cars are down by 9,165, or 5 $\frac{1}{10}$ percent. The flat cars show a very slight reduction of 1,735. But a lot of these are your flat cars that come under the category for your piggyback operations and all types of flat cars.

Mr. MADIGAN. May I interrupt you?

Mr. McQUISTON. Yes, sir.

Mr. MADIGAN. These figures that you listed on the bottom of page 9, is this supposed to be by all railroads or just the class I railroads?

Mr. McQUISTON. Just the class I railroads.

Mr. MADIGAN. The class I railroads have decreased by 77—37 increases for the railroads, but at least part of that increase is attributable to the fact that they are identifying—the class of the railroad has not changed, the class of one railroad was more than \$5 million in revenue and \$50 million.

Mr. McQUISTON. When was that change made, sir? Was it just recently or would that have an effect on this 1-year comparison.

Mr. MADIGAN. That is what I am asking. That is the question that I pose to you as to whether or not a lot of these cars have moved off this chart simply as a result of reclassifying the railroads. Do you know the answer?

Mr. McQUISTON. No; I do not. That would certainly be an interesting question, though. We might have the answer.

We have felt in the past that the class I railroads and the others are rather insignificant, but since they have moved that into a higher category it might have changed things.

Mr. MADIGAN. Please excuse me.

Mr. MCQUISTON. That is all right. This was taken from the Traffic World publication: Equipment Data, which the AAR puts out periodically.

The next thing that I wanted to mention was this. We have numerous cases of unreasonable delay on cars, and this has already been mentioned here today. One of the members of our association wrote a letter, and I put it in as exhibit A to my statement. I think you would enjoy reading it. I think it would be interesting as to what he has said. He is a substantial member of our association; he has been on the railroad for 33 years and he has been a faithful supporter of our railroads. But in the recent months, he has lost his patience, you might say. For the first time in my 26 years he has come to me and complained. He has made some statements of significance here.

He has given an example of a type of service which we are all familiar with and why did the carrier not perform service right in his own terminal and where they have the engines available and moving back and forth by his siding.

The one thing that I wanted to especially mention here was the statement that he made:

When I leased this property and railroad siding 33 years ago, I was promised one switch each day. It is not at all unusual and happened this past week for the switch engine to be parked at the crossing in front of our plant from approximately 3 o'clock until 4 o'clock with an empty car and loaded car at north yard while the train crew wasted approximately one hour waiting for something, I do not know what, while we were badly in need of the car.

It is my feeling that management and all clerical help has tried to cooperate with us. It is my belief that the railroad men are disobeying orders and doing just as they please, and to put in the most hours and as little work as possible. If the railroad trainmen will go to work and do what they are paid to do, I do not believe there would be a car shortage.

Of course, this is just a layman's point of view and one point that he has observed. But I do know that these things happen; they have been happening as long as I have been around the railroads—this unproductive time.

Now it was mentioned today about the cars that are out of service. A lot of these boxcars sitting on sidings that have been there for months. People that ride up and down the highways see these pretty boxcars that have been sitting on a siding; they have been there for months and months. We are told that the railroads do not have enough money to fix these boxcars up out of their current operating expenses, but if they were to put into the accounting for rules or tax laws provisions so the railroads would capitalize these expenditures, some of them might be repaired.

As it is, they cannot afford the money to repair them because of the poor rate of return they would get if they put them back in service. But they say that if these could be capitalized expenditures, that this would make a difference. This is just something I wanted to put in here in passing.

Something else I think that is important, and this is included in my statement here; the inspection of cars. One railroad tells us that they do not have the personnel to make the inspection of cars to see whether or not they are properly equipped—have all the equipment suitable for the shipper to load. Oftentimes they come

in and he has to reject them because they don't have enough chains, in this case, or tensioning devices to fasten the lumber to the bulkhead flat. In other cases it is a boxcar unsuitable to load; a door is off or something else is wrong with the car. It is full of debris and more than he can clean out. A lot of lost days to return these cars to the railroad empty and in need of repairs.

One railroad tells me that they don't have the personnel to check these cars, and that if they put them through an inspection track or had them inspected, it would slow down the cars and lose more days.

Another railroad tells of a 3-month campaign in which they checked every car to see what cars were not fit, and this was part of their clean car campaign. It is strange to me that one railroad is inspecting all cars and another is not.

However, this railroad was the Southern Railroad. It might have been doing it on a special project to see how many cars were unfit for loading and lost days because they were unfit.

The implication was that they had too much debris left in the car for the shipper to use and consignee did not unload those cars completely when they released them.

We submit that this is part of the railroads' responsibility to check the cars to see that they are clean before they pull them out. There is a rule in the tariffs that states that the car has to be completely unloaded, otherwise car remains on continuous demurrages and the man has to pay every day that he holds it if he does not clean it.

The railroad does not have the personnel and there is no one on the switch crew that will check on such matters. So they pull it out and then it goes through maybe three or four interchanges back to the owning road and then they discover that it is full of debris and should have been cleaned out. We lose a lot of days in this respect.

My point is here that the railroads, I feel, might be wise to put on the personnel to check these cars to reduce this loss time. It is just as important to save car-days as it is to lose them in having to move them around and finally having to clean them out anyway.

I think this covers most of my points. The one thing that I did want to stress and stress heavily is this removal of the tariff duty on foreign cars that are being used in the United States, owned or leased in the United States. Relief of the import tariff duty, the reverse demurrage which has been considered in House Resolution 1199, and was one of the things that the Agriculture Committee recommended; increased car mileage allowance; and incentive per diem on other cars and shipper owned cars. These are things that I think can be done to help alleviate the car shortage.

In conclusion, we submit that the facts and circumstances as summarized here and as outlined in our written statement fairly state our position in regard to freight car utilization and the national car shortage, that the recommendations for action by the ICC and for congressional consideration are in the best interest of the shipping public and the rail carriers; that they are in furtherance of the national transportation policy and they would not constitute a major Federal action within the meaning of the National Environmental Protection Act nor affect the quality of human environment.

[Testimony resumes on p. 342.]

[Mr. McQuiston's prepared statement follows:]

STATEMENT OF PAUL G. MCQUISTON, EXECUTIVE VICE PRESIDENT, SOUTHERN
HARDWOOD TRAFFIC ASSOCIATION

I am Paul G. McQuiston, Executive Vice President, Southern Hardwood Traffic Association (SHTA), with headquarters and general offices at Room 1000, Commerce Title Building, P.O. Box 3057, Memphis, TN 38103. District Offices are maintained in Memphis, TN, Louisville, KY, and New Orleans, LA.

I have been Executive Vice President of SHTA for the past five years. Prior to that time, I was Manager of the Memphis District for approximately ten years and a Transportation Analyst with the Association, dating back to 1952.

QUALIFICATION STATEMENT

Southern Hardwood Traffic Association (SHTA) is a quasi-trade association, duly organized and existing under the laws of the State of Tennessee. The primary purpose of SHTA, since its inception in 1911, has been (1) "To secure for its members the advantages of combined action in dealing with transportation problems, not only with railroads, highway carriers, etc., but in connection with legislation and regulation by governmental agencies; (2) To maintain a traffic organization ready to serve the needs of the hardwood industry at all times; (3) To acquire and disseminate information regarding changes and proposed changes in freight rates, regulations, etc., affecting the distribution of forest products and other commodities in which its members are interested".

SHTA currently represents 205 member firms or individuals engaged in some facet of the lumber and forest products industry. SHTA's membership is scattered over 24 States, from Maine to California, from Seattle to Florida and from the Upper Peninsula of Michigan to Mobile. Included in this membership is the Southeastern Lumber Manufacturers Association, headquartered at College Park, GA. This Association represents approximately 350 additional independent sawmill operators in the Southeast and Southwest. (SLMA)

SHTA not only renders a day-to-day service to individual members, including the quoting of freight rates and routes, the issuance of bills of lading to the rail carriers, tracing, expediting, diverting/reconsigning cars in transit, as well as the auditing of freight bills, including demurrage bills, the filing of claims and collection of overcharges or loss and damage claims, but we have participated as an Association in practically every major rate adjustment involving lumber and related forest products since 1911. SHTA has also been a participating party to practically every Ex Parte general freight rate increase initiated by the Interstate Commerce Commission at the request of the rail carriers.

The assistance we have been able to give our members in regard to securing empty rail cars and the observance of the various Service Orders issued by the Interstate Commerce Commission and by the Association of American Railroads has been substantial. We perform a watching service of the various rail Bureau dockets, as well as monitoring the notices of any changes proposed by federal agencies and the Congress which might have some effort, good or bad, upon the members of our Association. The current national car shortage has been a cause of major concern to this Association and to the members we represent. SHTA was represented before the Director of the Bureau of Operations of the I.C.C. in Washington on March 31, 1978, by its Executive Vice President and the Chairman of its Car Supply Committee to discuss the rail car shortage and what could be done to correct it insofar as our members were concerned. These same two representatives appeared before I.C.C. Bureau of Operations at a meeting held in Atlanta, Ga., to further discuss this car shortage and offer suggestions and possible solutions.

The principal interest of this Association in the freight car shortage involves bulkhead flat cars, 40 ft. boxcars and 50 ft. double-door boxcars, ordinary gondola cars, open-top hopper cars and wood chip hopper cars. Shortages are still being experienced by our members in all of these categories, some of a more critical nature than others, and I feel eligible and qualified to discuss this matter before your Committee.

INTRODUCTION

Since this Association was organized in 1911, when rail transportation was the primary mode for the movement of lumber and related forest products, many of our members have been oriented to rail transportation. Some of our members are still heavily dependent upon rail transportation, while many others have found it expe-

dient to divert much of their transportation needs to trucks, both private and common. This diversion to trucks has been accelerated very rapidly in recent years and particularly in the last few months due to the nationwide car shortage, unreliable terminal service, slow and unpredictable over-the-road linehaul service.

In other works, the transportation facilities and service have been anything but "upon reasonable request" or "with reasonable dispatch". Despite the faster, more reliable truck service, more in line with today's small inventories and faster cash turnover, policies, many of our members and the shipping public in general would return to the use of rail transportation *if ample cars* were available and reasonable, reliable service was assured. For these reasons and for the fact that some of our lumber commodities lend themselves to rail transportation, SHTA and SLMA have a very vital stake in the outgrowth of these hearings and decisive actions which may be forthcoming from Congress and the Interstate Commerce Commission.

I. Freight car utilization—Influence by Federal Government, good or bad

It is significant that the "Freight Car Utilization" was listed first for consideration at this hearing because poor, haphazard, unreliable freight car distribution and utilization are responsible, in a large measure, for our national car shortage.

A. Federal Regulations—Long Term and Short Term

1. *Nationwide Uniform Tariff of Demurrage Rules and Regulations 4-K, I.C.C. H-74*, although recently revised and overhauled, supposedly to make it more readable and understandable to the shipping public, spelling out exactly what the shipper must do to comply, otherwise penalties are assessed, is designed to influence or motivate shippers and receives to release cars back to the railroads with the least possible delay. This tariff has been amended numerous times so as to reduce free time, increase demurrage charges and generally force the shippers/receivers to perform with utmost expedience or else pay and pay through the nose. Because these rules and charges are published with the I.C.C., the shipper is duty bound to pay or face prosecution. Conversely, the railroads, except for emergency Service Orders in times of our shortage, such as Service Order 1309, may delay cars, mishandle cars, fail to weigh cars, etc., without fear of penalty or the assessment of charges for failure to perform such services with reasonable dispatch.

There are limitations as to the application of I.C.C. Service Order 1309 against the railroads, as compared to the application of Demurrage Tariff 4-K against the shipper and receiver. Service Order 1309 carries an expiration date of July 31, 1978. We say it should be extended. Service Order 1309 only applies to certain types of cars and certain designations. Saturdays, Sundays, and Holidays are excluded, regardless of when or where they fall, whereas this is not true under the Demurrage Tariff and empty cars under Service Order 1309 are to be placed or appropriate notice issued within 48 hours after arrival. Shippers have only 24 hours to load empty cars under Demurrage Tariff 4-K and under I.C.C. Service Order 1315, which applies to all types of boxcars, gondola cars and covered hoppers. Order 1315 provides for higher charges with reduced free time and is scheduled to expire August 1, 1978. We submit that Service Order 1309 should be made permanent and should be expanded to apply to all types of cars supplied by rail carriers, just as all cars are subject to demurrage under Uniform Tariff 4-K.

2. *I.C.C. Service Order No. 1309* is now set for oral argument before the full Commission on July 31. Because ConRail was fined 2.3 millions of dollars, the Southern Pacific more than 4 million dollars and the Santa Fe 445 thousand dollars, account multiple violations of this Service Order, some of these carriers have sought to have their fines lifted, only to be denied by the I.C.C. They have taken their case to District Court without success and now they seek oral argument before the full Commission. We submit that these carriers should not be allowed to circumvent the law as prescribed by this I.C.C. Service Order. They have no more right to obtain relief than the shippers and receivers who have been subject to a uniform nationwide Demurrage Tariff 4-K for years and years and they have, additionally, been subjected to severe restrictions and added penalty charges for holding or misusing cars during this national car shortage, as prescribed in I.C.C. Service Order 1315. We further submit that this Service Order 1309 should be made a permanent Order on the carriers because it is the only uniform application of penalty charges for unreasonable delay and neglect on the part of the rail carriers in performing the services which these common carriers hold themselves out to perform under the duty sections of the I.C. Act.

This Service Order 1309 should be expanded to include all railroad owned equipment. It is the only lever that the I.C.C. has over rail service and a continuation of its operation is in keeping with the National Transportation Policy. If Service Order

1309 is not extended by the I.C.C., then Congress should step in and enact legislation which would require a "uniform reverse demurrage" tariff which would apply to all common railroad carriers subject to Part I of the I.C. Act.

3. *Various AAR Car Assistance Directives, Car Service Directives and I.C.C. Car Service Orders.* Numerous AAR and I.C.C. Service Orders have been issued during the current national car shortage and some of these were definitely required to return empty cars to owing roads for protection of shipping interests, both seasonal and normal; however, many of these Orders were so exacting that they caused many cars to be moved empty in every direction, whereas sound transportation policy would have dictated loading cars at least so destinations on the owning road. The result has been that thousands of cars are being moved empty all over the country, both specially equipped cars and general purpose cars, thus adding to the railroads' average cost of service all of which makes for more inefficiency and higher freight charges, without maximum efficiency.

We are well aware of the railroads' costing procedures which use averages to determine variable costs and fully allocated costs. The excessive movement of empty cars, as well as the mishandling, the placing of unfit cars to load and then having to replace them, superficially inflates carriers' costs, all of which are ultimately passed on to the shipping public in the form of freight rate increases, whether under the yo-yo clause, as prescribed in the 4-R Act or through Ex Parte general freight rate increases. We submit that this is not just and reasonable and that many of these Service Orders have legalized discriminatory practices in the distribution of the Nation's railroad car fleet.

A rulemaking proceeding by the I.C.C. may be required to determine the car needs of all shippers in the United States, not only the giants who dominate some commodity groups, while other commodity groups such as lumber and related forest products are made up of giants of the industry, as well as hundreds and hundreds of small sawmills, independent operators, small to medium sized processing and distribution operators, but every shipper, large or small, whether located on branch lines or in large terminals. One of the chronic complaints as to insufficiency of cars comes from our shippers of wood chips in hopper cars suitable for conversion into wood pulp. Except for the attention given the small shippers by the individual railroads, his voice is often muted when it comes to a national situation. This could probably be accomplished under Ex Parte Proceeding No. 241, 335 ICC 264, 335 ICC 874 and 346 ICC 497.

4. *Interstate Commerce Commission Ex Parte Proceedings Dealing With Adequacy of Car Supply and Car Utilization.* The I.C.C. has instituted numerous Ex Parte proceedings in an endeavor to stimulate, encourage or order railroads to build or lease various types of rail equipment to meet the shipping demands. Ex Parte 241, entitled "Adequacy of Railroad Car Ownership and Utilization", is one of these ongoing proceedings. An outgrowth of this Ex Parte 241 was the establishment of the "pooling of car service with respect to boxcars" and the establishment of RAIL BOX which has produced a pool of free running boxcars built by American Rail Box Car Company and Trailer Train Company. Much consideration is now being given to expanding this type of pooling to other types of general purpose cars which can be used by various types of shippers. We wholeheartedly subscribe to this car pooling and the free running of cars because this generally produces the ultimate in car utilization, whereas individual ownership of cars usually results in a lot of empty car movements under the present Car Service Rules and under the AAR and I.C.C. Service Orders and Car Directives.

Freight Car Adequacy Versus Freight Car Handling and Utilization. Many shippers and shipper groups contend that the rail carriers would have sufficient cars to handle today's goods if they could eliminate delays, mishandling, duplications, etc., and operate efficiently and consistently. Since the railroad management cannot seem to produce this type of efficiency and other means of meeting the shippers needs must be sought.

5. *Ex Parte 252 (Sub No. 1)—Incentive Per Diem Charges on Boxcars and Ex Parte 252 (Sub No. 2)—Incentive Per Diem Charges—Gondolas.* Although the IPD programs for certain boxcars and plain gondola cars have been protested by some of the railroads and they have endeavored to fight back or counteract the Commission's decisions in these cases by proposing to cancel average agreement demurrage, Rules 8 and 9 of the Demurrage Tariff 4-K, such action has now been withdrawn and we submit that the IPD programs should be extended to other types of cars, including shipper owned or leased cars of any type which the railroads normally would be required to furnish in accordance with their duty sections of the I.C. Act. Shippers who supply their own cars, in many cases, do not receive sufficient mileage allowance to even compensate for the cost of leasing or owning the rail cars,

principally because of the slow service and unreliable terminal handling of the railroads and unless some type of per diem or incentive per diem is made applicable to the non-railroad car owner, the railroads are engaged in discriminatory practices which are forbidden under the Act.

6. *I.C.C. Case No. 36934—Time and Mileage Per Diem Allowances on Certain Non-Railroad Owned Freight Cars.* Such a proposal is now before the I.C.C. for investigation and decision, having been requested by the Georgia-Pacific Corporation. While specifically naming boxcars, flat cars and other general purpose equipment, this investigation is well founded and we support the concept of mileage per diem allowances to non-railroad owned equipment on the same basis and the same scale of allowances as prescribed in the "Code of Car Hire Rules and Interpretations—Freight", which became effective on March 1, 1973. The railroads pay per diem to each other for the use of their cars and there is no reason why a non-railroad owned car, which equipment relieves the railroads from this financial burden, should not be afforded the same treatment.

B. Legislative Efforts To Improve Car Utilization and Alleviate the National Car Shortage

1. *House Resolution 1199*, introduced by Rep. Fithian, provides that (a) railroads should be charged *reverse demurrage* for delays in picking up loaded cars from shippers, (should apply to empty cars as well); (b) agricultural shippers and others who own or lease freight cars and equipment should be given an increase in mileage allowance; and (c) the I.C.C. should provide *sufficient car service agents* to proper oversee the allocation of freight cars. (Emphasis supplied). This proposal should be expanded to include all types of rail cars and to all shipping interests, not just the "agricultural shippers". These worthy efforts must not be allowed to die, but must be expanded and promoted.

2. *Senate Agriculture Committee Adopts Unnumbered Resolution on May 17 Regarding Rural Transportation.* Although this Resolution is similar to House Resolution 1199, it also should be expanded to include all shippers and not just farmers or agricultural commodity shippers. This Resolution would order the I.C.C. to (a) increase the incentive per diem rates for boxcars and covered hopper cars (we strongly urge that the Resolution be expanded to include other railroad owned cars, particularly wood chip hopper cars and bulkhead flat cars); (b) allow incentive per diem funds to be used to repair existing * * * cars and to purchase new covered hopper cars or boxcars; (c) should impose a reverse demurrage charge on these types of cars; (d) should hire more Car Service Agents and should utilize present Car Service Agents strictly for car service work; (e) should increase loaded mileage allowance for shipper owned cars, etc.

Both the House and Senate Resolutions have the right idea. We commend them for this initial start and we urge that they be expanded to cover all railroad equipment which is furnished to shippers for loading; otherwise the Congress and the Commission are committing practices of undue preference and prejudice.

3. *HR Bill 13503* would lift the import tariff on foreign made hopper cars, gondola cars and boxcars. This Bill, recently introduced by Rep. Fred Rooney, Chairman of this Sub Committee on Transportation and Commerce of the Committee on Interstate and Foreign Commerce, proposes to suspend for two years the import tariffs on foreign-made hoppers, gondolas, and boxcars. In addition to these cars, our lumber members are vitally concerned over bulkhead flat cars which have been produced in foreign countries and have been leased by U.S. railroads and by U.S. shippers for loading packaged lumber, among other commodities. We respectfully urge Chairman Rooney to have this Bill amended to include bulkhead flat cars which are in short supply. Although the report obtained from the I.C.C. and quoted in this Bill concerning daily shortages as of July 1 referred to plain flat cars, we can assure you that the shortage of bulkhead flat cars for lumber loading equals or exceeds that figure as for as outstanding empty orders are concerned.

In our study of the freight car situation and reports in the various transportation journals and other publications, the backlog of orders for empty equipment with the car builders justifies this two-year suspension period proposed in this Bill from the tariff duty as to the use of foreign owned freight cars. The 18% Ad Valorem Tariff quickly discourages the use of foreign owned cars and in most instances, makes it prohibitive for the railroads or the shippers to lease such cars. We respectfully urge the passage of this Bill after it has been amended to include bulkhead flat cars.

II. The national car shortage, contributing factors and possible solutions

A. *Ownership of Revenue Freight Cars by Class I Railroads Continues to Decline.* The latest equipment data reported in the July 24 issue of *Traffic World*, Page 90,

as reported to the Car Service Division of the AAR by Class I Railroads, shows a reduction in each and every category of cars. The following figures are quoted from that publication:

| Type cars | Ownership June 1, 1978 | Ownership June 1, 1977 | Decrease under 1977 | Percentage of decline |
|----------------|---------------------------|---------------------------|------------------------|--------------------------|
| Box | 397,379 | 435,221 | 37,842 | 8.7 |
| Covered hopper | 159,705 | 160,162 | 457 | 0.3 |
| Gondola | 160,455 | 169,620 | 9,165 | 5.4 |
| Hopper | 329,514 | 339,735 | 10,221 | 3.0 |
| Flat | 97,162 | 98,897 | 1,735 | 1.8 |
| Refrigerated | 70,339 | 74,620 | 4,281 | 5.7 |
| Others | 30,014 | 33,853 | 3,839 | 11.3 |
| Total | 1,244,568 | 1,312,108 | 67,540 | 5.1 |

Although the AAR has announced that orders for nearly 17,000 freight cars were placed in May, the largest number for any month since April 1969, and the total orders for the first five months of 1978 amount to 48,033 cars compared to 22,486 cars ordered during the comparable period in 1977, we have not realized any such gain on the present ownership of cars and as suggested by Chairman Rooney in his introduction of HR Bill 13503, the backlog of new car orders with the car builders may not be actually produced and placed in service for the next two years.

As the fleet of railroad owned cars diminishes month after month and the railroad service shows spotted improvements at best, it is imperative that rail carriers, shippers and federal agencies cooperate in trying to discover and put into effect measures and programs which will assure the utmost efficiency and utilization of the present rail car fleet, including non-railroad owned or leased equipment.

B. Examples of Rail Service and Car Handling Contributing to National Car Shortage. Intra and inter-terminal switching services account for much of the delays and inefficient handling experienced by rail car shippers today. Such delays and examples of careless or inefficient handling are not new to the shipping public or peculiar to this present national car shortage. A typical example has been carefully and deliberately explained by a disturbed and frustrated shipper and a long-time member of this Association. This member's letter, dated July 10, addressed to his switching carrier in Memphis, TN, has been reproduced and made a part of this statement, designated as Exhibit "A". Except for a previous business engagement, Mr. Carlton Smith would have attended this hearing and given his own testimony. I believe he will agree that his company is rail oriented and he desires to continue using rail service; however, in my 26 years with SHTA, this is the first time Mr. Smith has found it necessary to express himself in this manner. Mr. Smith's situation involves the delivery of a loaded inbound car of lumber to his siding by the switching carrier, which was not the inbound roadhaul carrier. The car in question, SSW 21246, was delivered by a transfer engine to the railroad yard in close proximity to our member's siding on Friday, June 30. Despite his handling with the railroad personnel to get the car placed for unloading, it was not actually spotted until Thursday afternoon, July 6. The consignee unloaded and reloaded this same car on Friday, July 7, and released it under load to the switching carrier before noon on Friday, July 7. This load was finally pulled from our member's siding around 3:30 P.M., July 10. This was three days after the car was released, meaning that the railroad contributed to the inactivity of this car by at least 48 to 60 hours.

This report could be multiplied over and over again by our members and from all indications, it would be true of all types of shippers around the country. We have actually had members report empty cars which had been released back to the switching carrier being held up to 7 days. As this statement is being written on July 25, it is my understanding that Mr. Smith has received no verbal or written response to his letter of July 10. You can draw your own conclusions to this and I shall not invoke my own. This is certainly not a large shipper, but one who has been faithful to the railroads down through the years; however, the circumstances involving this car and the habits of the train crew, as described in his letter of July 10, have worn his patience very thin. His concluding statement is shared by other shippers, viz: "If the railroad trainmen will go to work and do what they are paid to do, I do not believe there would be a car shortage". This, of course, is not the total answer, but it certainly contributes to our car shortage and the poor utilization of the fleet of cars now in service. Mr. Smith's observations and conclusions involve

railroad management and "a day's work for a day's pay", which involves "work rules". We urge you to read his letter very carefully.

In 1977, SHTA billed, traced and/or recognized 6,928 rail cars for our members. This represents only a small percentage of the total rail cars shipped by the membership because many of these members issue their own bills of lading and do their own tracing and reconsigning. Listed below are representative records of our tracing of recent shipments reflecting over-the-road service, as well as terminal service at origin and destination:

| Car No. and initial | Date billed | Origin | Destination | Date placed |
|------------------------|----------------|---------------------------|---------------------|----------------|
| SP 224457 | May 26 | Memphis, Tenn | Tacoma, Wash | June 27. |
| MP 253566 | June 13 | Martel, Calif | Evansville, Ind | July 1. |
| UP 509249 | June 12 | Sumas, Wash | Huntingburg, Ind | June 26. |
| MP 13981 | June 18 | Holly Hills, S.C | Memphis, Tenn | June 28. |
| SP 242144 | June 24 | Bentonla, Miss | City of Ind., Calif | July 10. |
| TP 252496 | June 30 | Martel, Calif | Evansville, Ind | July 13. |
| BCN 841255 | June 19 | Quesnal, British Columbia | Marshalltown, Iowa | July 11. |
| ICG 580979 | June 28 | Bentonla, Miss | Monticello, Ind | Do. |

Some of these records reflect excessive delays in transit and, generally, these cars experienced a repair in transit or they had to be weighed for the assessment of transportation charges, etc. Some of these are simply routine and I believe you will agree that the transit time is not what it should be for the distance hauled and the number of carriers involved. Our members tell us that in order to obtain suitable cars to load, get them placed and then pulled again after they are loaded and released, it requires day in, day out, telephone communications with railroad personnel and not every shipper or his plant manager is willing to spend this kind of time trying to move in rail transportation. Many of our members have diverted shipments to trucks and in many instances, shipments are picked up by customers' trucks or delivered by the shippers' trucks.

Demurrage bills rendered by the railroads are oftentimes incorrect and excessive. Only those shippers who diligently and consistently keep written records of cars ordered, dates requested, receipt of cars, actual hour and date of placement and actual hour and date of release, are able to contradict whatever records upon which the railroads base their charges. Our experience has been that very few railroads have sufficient clerks to properly check industry tracks these days and they depend on bill of lading dates, phone calls and in some instances, we suspect, guesswork. One of our members recently complained about the demurrage bill rendered by the railroad and after we had carefully checked all of the dates and records, it was discovered that the railroad clerk used the dates the cars were ordered for loading rather than the dates they were actually placed. Since this shipper had no obstructions on his track, it was not a matter of constructive placement, but simply a matter of convenience for the carrier and had this shipper not been alert, erroneous charges would have been assessed and paid to the railroad.

Hopper cars and specifically the wood chip hopper cars are in short supply, particularly insofar as the small sawmills and manufacturing plants are concerned. Some of these mills reduce their slabs, edges and cutoffs to the wood chips by running through a hogger machine. They are forced, sometimes, to close their plants when they have no freight car or truck in which to load this material. There was a time when this material could be burned or stockpiled out in the open, but these are now forbidden by the EPA or OSHA. The inability to obtain empty hopper cars on a regular and consistent basis has worked hardships on many of these small mills, particularly in the Southeast. These mills are of the opinion that the railroad is obligated, under the I.C. Act, to furnish equipment and service upon reasonable request and when they do not receive such equipment or service, they want to know what can be done about it. This, of course, is a question which has been asked by all types of users during a car shortage of this current magnitude.

Many empty rail cars are placed on shipper's siding for loading without railroad inspection to determine if car meets shipper's requirements or is fit for loading or not. We recently noted contradictory statements in this regard from two separate railroads: Railroad "A", in response to our request that empty bulkhead flat cars, which are supposed to be equipped with tie-down chain assemblies or constant tensioning devices, be inspected prior to placement in order to prevent rejection and return of unfit cars to the railroad, we were advised that "If we stop and inspect

each and every lumber flat car prior to placement, you certainly could understand the delays that would be encountered and lost days involved, plus we just don't have the people to perform this inspection. Consequently, the only solution that we can suggest at this time is that when a car is placed and found to be short equipment, it should be rejected or ask the Service Agent if car department can furnish necessary equipment."

Railroad "B", on the other hand, makes specific reference to a three month study which it conducted with the cooperation of the National Industrial Traffic League to determine the extent of cars that were placed in shippers' siding that were unfit to load. "According to a three month study conducted by Railroad ———, at one terminal 58 percent of all cars inspected were rejected as unfit for loading. The 818 rejected cars resulted in a loss of 6,043 car days. ——— Railroad explained, 'It's the equivalent of 40, 150 car freight trains not running for a day or it's the equivalent of 67 badly needed cars lying idle for a three month test period'."

We have no assurance that carrier "B" inspects each and every car before it is placed for loading by shippers and this three month test, no doubt, was deliberately taken; however, we must assume that the statement "unfit for loading" pertained to cars which had not been cleaned by the previous consignee. It is the duty of the consignee to clean cars before releasing to the railroad in accordance with Rule 27 of the UFC Tariff; however, the railroads are equally guilty for pulling cars from consignees sidings until they are completely unloaded. Once this is done, then the unfit car is generally placed in somebody else's siding to be loaded. In most instances, shippers are so glad to receive an empty car these days that they are willing to clean out the cars in order to use them. The fact of the matter still remains that the railroad did not have the car inspected at the consignee's siding before it was pulled out and, of course, many cars are interchanged as empties from one carrier to the other that are in a dirty or unfit condition for loading by the next shipper. Cooperation, again, is needed and it seems to be the hardest thing in the world to obtain.

We could cite many other examples of delays and poor handling at terminals and over the road. Because most of our lumber shipments must be scale weighed for the assessment of freight charges, this service oftentimes slows a car down from 48 hours to 72 hours. As we have said before, shippers and receivers of rail freight must possess the traits of tolerance, patience and understanding; otherwise, they will have discovered another mode of transportation to protect their markets and to remain in business.

III. Summary and recommendations for solutions or improvements

A. *Some railroads have out-of-service fleets of rail cars stored in various sidings*, which cars, we are told, have remained out of service for many months because the cost of repairs to place these cars back in service must be borne out of current operating expenses and these costs will not justify the expense account of the rate of return which can be expected from the cars if they were placed back in service. We are told that if such repairs could be charged as "a capitalized item" and the accounting rules and tax laws pertaining to the railroads were changed to permit this capitalization, that it might permit or motivate such carriers to reactivate and restore to general service some of these cars, including boxcars. We suggest that consideration be given to (1) changing the railroad accounting rules and tax laws to permit this expense to be declared a capitalized expenditure, (2) that consideration be given to allocating federal money in the form of low cost loans to carriers who are willing to repair such out-of-service freight cars and (3) if tax credits or reduced per diem rates would induce carriers to repair these cars, then consideration should be given by the appropriate agencies.

B. *Reverse demurrage* has been proposed by several sources, including House and Senate Resolutions and even Chairman O'Neal of the I.C.C. has stated that this is one possible solution that should be explored. Reverse demurrage would certainly be a means of publishing in I.C.C. approved tariffs rules, regulations and charges which would be assessed against railroads who did not perform the normal required services within certain specified time limits similar to the rules, regulations and charges applicable to the shipping public, published in the Nationwide Uniform Demurrage Tariff 4-K.

C. *A national free running pool of freight cars* has been suggested in some of the legislative references in this statement. RAIL BOX, a subsidiary of Trailer Train Company, has apparently been highly successful in providing free running 50 ft. boxcars for the railroads that have joined in this pool. Unfortunately, the cars which were originally built by Trailer Train had 10 ft. door openings, whereas our lumber shippers of packaged lumber require double-doors or door openings 14 ft. or

wider. This does have a lot of merit and it should be considered as a means of relieving the car shortages as we know them today.

D. *I.C.C. Revised Service Order 1309, setting time limits for handling rail cars*, should be extended indefinitely for the protection of the shipping public and could be modified as the national car shortage improves. The establishment of "reverse demurrage" provisions for rail carriers is an alternative to this Service Order.

E. *Inspection of rail cars, both empty and loaded, by railroad personnel* is necessary to efficient car handling and utilization. More and more of the so called accessorial services originally performed by railroad clerks are now being performed by shippers. This is particularly true as to the inspection of cars for loading and release of loaded cars. Although these functions might be performed by present employees of the railroads who are not now charged with this duty, the employment of additional clerks to make these inspections would be costly. We submit, however, that the railroads might be money ahead to restore these jobs because of the savings in car days and unnecessary movement of unfit cars.

F. *The present car hire per diem charges*, as prescribed in I.C.C. Docket 33145 and published in the "Code of Car Hire Rules and Interpretations-Freight", effective March 1, 1973, should be amended so as to apply to non-railroad owned freight cars of every type and designation as supplied by the railroads. This would include bulkhead flat cars, in particular.

G. *Ex Parte 252, Sub No. 1 and Sub No. 2, should be reopened and extended to other types of railroad owned cars* which are in short supply, specifically including the open-top hopper cars and bulkhead flat cars.

H. *The mileage allowances to shippers using their own or leased rail cars*, as they apply to the various commodities, should be analyzed to see if increased mileage allowances are necessary to counteract inflation and to reimburse the shipper for supplying much needed rail equipment and the savings enjoyed by rail carriers.

I. *HR Bill 13503*, which would lift the import tariff on foreign made hopper cars, gondola cars and box cars, should be amended to include bulkhead flat cars and progressed for early enactment.

In conclusion, we submit that the facts and circumstances as outlined above fairly state our position in regard to freight car utilization and the national car shortage and that the recommendations for action by the Interstate Commerce Commission and for Congressional legislation are in the best interests of the shipping public and the rail carriers, that they are in furtherance of the National Transportation Policy and they would not constitute a major federal action within the meaning of the National Environmental Protection Act nor effect the quality of the human environment.

Respectfully submitted.

[Exhibit A]

CARLTON SMITH INDUSTRIES, INC.,
Memphis, Tenn., July 10, 1978.

ASSISTANT SUPERINTENDENT, RAILROAD COMPANY,
P.O. Box 190,
Memphis, Tenn.

DEAR SIR: This letter is in regard to the acute boxcar shortage which I feel is partially caused by negligence on the part of the switching crews. I would like to point out one or two recent events which brings about my conclusion:

Car SSW-21246 was at _____, North Yard on Friday June 30th. The car was finally delivered to our siding Thursday afternoon, July 6th. We unloaded this car and re-loaded it for shipment to our Bearden, Arkansas plant before noon Friday, July 7th. We billed the car out to Bearden, Arkansas at 1:30 P.M. Friday, July 7th, and the car is still on our track at 2 P.M. today, July 10th.

We placed an order for an empty boxcar on June 26th to be placed on our track for loading at 7 A.M. today, July 10th. Car ICG-524671 was assigned to us Thursday, July 6th, and although the car went to North Yard Saturday, July 8th, we still do not have the car for loading.

This is not an unusual case as we have to beg and plead with various ones in your organization to get cars assigned to us and then to try to get them delivered to our siding.

If our plant was located in some out of the way District, I could better understand them not switching us. It so happens that we are on the Belt line of the — where all the trains operating in this area pass our switch several times a day while switching Firestone, Ray Sharp, Jorgensen-Bennett, Anderson-Tully—in fact this entire district.

When I leased this property and railroad siding 33 years ago, I was promised one switch each day. It is not at all unusual and happened this past week, for the switch engine to be parked at the crossing in front of our plant from approximately 3 o'clock until 4 o'clock with an empty car and loaded car at North Yard, while the train crew wasted approximately one hour waiting for something—I do not know what, while we were badly in need of the car.

It is my feeling that Management and all Clerical Help has tried to co-operate with us. It is my belief that the Railroad men are disobeying orders and doing just as they please, and to put in the most hours and as little work as possible. If the Railroad trainmen will go to work and do what they are paid to do, I do not believe there would be a car shortage.

Very truly yours,

CARLTON SMITH, *President.*

VERIFICATION

State of Tennessee
County of Shelby

Before the undersigned personally appeared Paul G. McQuiston, who, upon being sworn, stated that he is Executive Vice President of Southern Hardwood Traffic Association and that he is familiar with and has knowledge of the facts stated in the foregoing statement and that such facts are true and correct.

PAUL G. MCQUISTON.

Subscribed and sworn to before me this 25th Day of July, 1978.

FARRIS G. KENNON,
Notary Public.

Mr. MADIGAN. I would like if I might refer to the bottom of page 14 of your statement and if you can help me understand this, because I don't understand the accounting change that is recommended here. I don't understand that.

If the railroads prepare cars, they are required to spend that money, that money is gone. That is also a direct reduction of taxable income, and changing the accounting procedure or changing what you call that it does not alter the fact that it is a drain of that much money run from their working capital at that point in time. That is not changed.

If money expended for repairs is a direct and immediate reduction and taxed as income, I don't understand why they would want to change that to something else.

Mr. MCQUISTON. Let me just state here that this is, you might say, a direct quotation from the railroad that has these cars and has not repaired them and this was a statement that was made to me.

Now, I am not an accountant; I don't profess to know how these things work. But the implication to me was that if they had to take it out of their operating budgets, it is not in the operating budget, they have not included it in that operating budget this year; but if they could capitalize it and spread it over 3 or 4 years, spread it over a period of several years as he said. When you capitalize something, as I understand it, then you somewhat put it on a depreciation table. I know if we buy something for the office and put it on a capitalized expenditure, we extend it over several years. That was the implication that he gave me.

Mr. MADIGAN. I understand that; it is still an expenditure of that amount of money. The fact that you call it a capitalized item——

Mr. MCQUISTON. It has come out of the bank.

Mr. MADIGAN. Yes.

Mr. MCQUISTON. Yes.

Mr. MADIGAN. Perhaps you could get that clarified for me and write the subcommittee a letter.

Mr. MCQUISTON. I will certainly endeavor to do that, sir.

[The following information was received for the record.]

SOUTHERN HARDWOOD TRAFFIC ASSOCIATION

EXECUTIVE OFFICE • SUITE 1000 COMMERCE TITLE BLDG • P. O. BOX 3057 • (901) 526-7025 • MEMPHIS, TN 38103

August 11, 1978

File: M-9058

cc: 1250

HENRY C. FULCHER, JR., PRESIDENT

RAY F. SHARP, JR., FIRST VICE PRESIDENT

PAUL G. MCQUISTON, EXECUTIVE VICE PRESIDENT

The Honorable Ed Madigan
Committee on Interstate & Foreign Commerce
Rayburn House Office Building
Washington, D. C. 20515

RE: Freight Car Shortage and Utilization #2. Additional Information Requested
of Witness Paul G. McQuiston, Southern Hardwood Traffic Association, July
26, 1978

Dear Mr. Madigan:

Reference is made to my letter of August 1, addressed to Honorable Fred B. Rooney, making reference to our discussion and advising that I would supply the answers to the questions raised just as soon as possible. Those questions involved the following subjects, covered in my written statement:

1. Ownership of Revenue Freight Cars by Class I Railroads Continues to Decline. (Bottom of Page 9, Witness McQuiston)

The question in regard to the reductions in Class I ownership of revenue cars in every category, as of June 1, 1978, versus June 1, 1977, was whether the change in the designation of Class I Railroads to require annual operating revenues of 50 million or more instead of 5 million dollars could have been part of the reason for some of these reductions. Since neither of us knew the exact date when this change became effective, I could not answer this question. I have since contacted, by telephone, the Director of Data Control and Analysis for the Car Service Division of the AAR in Washington and I am told that this increase in the requirement for qualification of the Class I Railroad became effective January 1, 1978, and that 12 carriers who were designated as Class I Railroads were declassified to Class II, viz: BAR, CIM, CVT, DT&SL, ITC, MEC, RF&P, GARR, DWP, GBW, TX and MX, TP&W. Carriers with annual revenues in excess of 10 million but less than 50 million dollars are designated Class II and carriers with revenues under 10 million dollars are declared Class III. Although the ownership of these 12 carriers could have had some influence on the outcome of these figures, I was unable to obtain a specific answer on this.

2. Some railroads have out-of-service fleets of rail cars stored in various sidings . . . (Bottom of Page 14 and Top of Page 15 of Statement of Witness McQuiston)

Your question involved a statement which was made to me by one of the major Class I Railroads that if such repairs required to reactivate these out-of-service cars could be charged as a capitalized expenditure rather than a current expense, then such a change in the accounting rules or tax laws might permit or motivate such carriers to reactivate

EXECUTIVE OFFICES: MEMPHIS, TENN. / DISTRICT OFFICES: LOUISVILLE, KY., MEMPHIS, TENN., NEW ORLEANS, LA.

and restore to general service some of these cars, including boxcars. Since the amount of money needed to repair and restore such cars would be the same whether reported as a current expense in the year in which the repair was made or whether the cost was capitalized and spread over several years, your question was just what difference would this make since "it is still an expenditure of that amount of money".

I shall endeavor to convey to you the information received from the Assistant Vice President, Finance and Planning, ICG Railroad, Chicago, IL. Under the present railroad accounting rules and the Internal Revenue Service tax laws, the costs of heavy repairs to rail cars must be charged to the railroads' income statement and, therefore, reduces the railroads' earnings. Such reductions in earnings causes the railroads bond ratings to go down. It is a reflection on the railroads' operations and the investment community will require higher interest rates on loans and in some instances, the lending agency might not be willing to make the loan at all.

It is not a matter of whether the railroads have the money to repair these cars immediately or whether they can go out and borrow enough money to repair these cars, but rather the fact that such an expenditure on a number of cars that are out of service at this time would be directly reflected in their income statement and reduce their earnings to such an extent that they would be a poor credit risk.

If, on the other hand, the railroads did not have to charge the cost of these repairs to today's profits, but were permitted to treat these repair costs as capital improvements, which would permit them to spread these expenses over a period of years in the form of depreciation and/or amortization, then they could use the necessary cash or obtain the necessary cash to make these repairs, thus helping in a great way to relieve rail car shortages, particularly of boxcars.

Under present IRS laws and Association of American Railroad accounting rules prescribed by the Interstate Commerce Commission, as well as the rules of the American Institute of Certified Public Accountants, capital improvement expenses are entitled to a 10% investment credit and a depreciation of the full price of the capital improvement over a period of 7 years. Since these repairs to the out-of-service fleet of cars apparently cannot be considered capital improvements to these cars, they do not qualify for this capitalization.

If Congress would pass a law that exempted such railroad freight car repairs from currently being charged to the income statement, which reduces current income, and these items were allowed to be capitalized instead thereby spreading the cost over a period of years through depreciation and/or amortization, the railroads which have these out-of-service fleets of cars would be able to repair and restore many of them to service and thus help to alleviate the current freight car shortage.

I trust that the above information which I have gleaned from a lengthy telephone discussion with the ICG Railroad officials will enable you to put my original statement into perspective and, hopefully, initiate action within your Committee to get something done about this unproductive and costly inventory of railroad cars which are currently out of service.

Another possibility would be for Congress to instruct the Interstate Commerce Commission to determine the number of freight cars which have been out of service for a number of months because of the above described accounting procedure and to establish rules and regulations, including amendments to the Association of American Railroads' accounting rules that would permit this out-of-service fleet of cars to be repaired and restored to active service. Such a restoration of these cars would, in many respects, be the equivalent of new cars or capital improvements and such a change in the rules and regulations could be made on a temporary basis until these big backlog of cars have been restored. The ultimate cost of repairing these cars would have to be much less than building new cars and the time required to restore them to active service, based on the backlog of new car orders with car builders today, would also be considerably less.

I appreciate this opportunity to try to answer the questions which you posed in our discussion on July 26 and I trust the information will be useful in your endeavor to prescribe solutions to our present national car shortage and utilization of rail equipment.

Respectfully submitted,



Executive Vice President
PGM:dl

P.S. Under separate cover, I am returning the original typewritten print of my testimony with pencilled minor corrections as requested.

P.G.M.

cc: Mr. Henry Fulcher, President Southern Hardwood Traffic Association,
c/o Sitco Lumber Co., Pleasant Run Road at I-45 South, Wilmer, TX 75172

Mr. MADIGAN. We do appreciate your staying here so late. If you are anything like the rest of us, we know that you prefer to be home to being here, so we are grateful.

We observe the hour; it is now 6:30, which qualifies the staff for overtime pay.

Mr. McQUISTON. Maybe that is the same as my overtime pay.

Mr. MADIGAN. We are very grateful for your testimony and would appreciate some clarification on that.

Mr. McQUISTON. I will see if I can get it for you, yes, sir.

I would qualify it to this extent. That when this gentleman explained this to me, he said it might motivate some carriers to do this. I don't know whether it would motivate the ICC or the railroad, who is in the financial condition to do it, or not. This may be the qualification, but I will certainly endeavor to find that out and write you about it.

Mr. MADIGAN. We would be very grateful for that.

If you have any further thoughts on this, I would very much appreciate your sharing them with me.

Mr. McQUISTON. Would the chairman be pleased to entertain a question here about the branch line bill? I would very much like to receive a copy of that bill so that I might study it. I have not seen it, but lumber companies and our lumber industry is fraught with small sawmills and this is a real problem with the branch lines. A lot of them are located there for their operations.

Mr. MADIGAN. Mr. Vanderburg has your business address and is making a note on it. Is that the address?

Mr. McQUISTON. Yes. Thank you so much.

Mr. MADIGAN. Thank you.

[The following letters and statements were received for the record:]

ICI Americas Inc.

WILMINGTON, DELAWARE 19897
(302) 575-3000

April 21, 1978

The Honorable Fred B. Rooney
House of Representatives
U.S. Congress
Washington, D. C.

MAY 03 1978

Dear Congressman Rooney:

It is my understanding that the House Interstate and Foreign Commerce Committee's transportation and commerce sub-committee will hold hearings in the near future on the discontinuance of optical automatic car identification (ACI) by the nation's railways. This letter is written to explain our company's interest in and views on ACI.

ICI Americas Inc. is engaged in the production and distribution of a wide variety of chemicals and plastics, many of which are shipped in bulk. For most movements of any length, rail shipment is the only economic means of transportation for bulk shipments. However, the railroads (with insignificant exceptions) do not provide tank cars for liquid bulk movements, and frequently do not provide covered hopper cars for dry bulk shipments (all of ICI's dry bulk movements are currently in shipper-supplied cars). Therefore, shippers of these products must supply the rail equipment to enable product movement to market. ICI currently owns or operates under long term lease a fleet of approximately 200 tank and covered hopper cars. Internal expansion alone is expected to cause a more than doubling of this fleet in the next three years. Rail cars of this type currently cost upwards of \$40,000 apiece; it can easily be seen that a substantial investment is involved.

In order to minimize distribution costs, we attempt to maintain tight control of our rail car fleet; that is to say we attempt to maintain only the bare minimum of rail equipment necessary to move our products. Our principal weapon in this tight control effort is the car location message (CLM) system maintained by the nation's railways, in which the major railways provide (a minimum of) once-a-day reports on the current status of our cars while on their lines. Through timely review of the CLMs, we are able to detect erroneous movements of our cars by the railways and to take corrective action with them before the cars go too far astray. This reduces total car requirements and enables us to hold our distribution costs and hence our ultimate prices to consumers as low as possible.

The railways' CLM system depends on two things:

- accurate and timely status reporting to the railroads' computers .
- timely computer processing and dissemination to rail users.

Our interest in the rail carriers' maintenance of a viable ACI system relates to the first above. Without timely and accurate input on car status, the CLM system will be of diminished or no value. Without a viable CLM system, we will not be able to effect tight control of our rail car fleet and will be forced to add cars to it, thus increasing our costs and ultimately our prices. My experience in sixteen years of industrial traffic management, which included a stint when I was on loan to a major railroad to assist in its development of a rail car information and management system, convinces me that the only practicable and effective method of the railways' providing accurate car location information is through an automatic car identification system of some sort. The ACI system just discontinued by the carriers is the only such system advanced to the state of practical application. It was reasonably effective in use; it is said that its effectiveness could have been enhanced to a 95-99% accuracy rate by proper carrier maintenance. In our view, it should not have been discontinued until a viable replacement system which automatically identifies rail cars without human intervention is in place. It could be resurrected with a minimum of cost if prompt action is taken.

Enclosed is page 12 torn out of the April, 1978, "Modern Railroads" which provides further views on this issue. I would also point out that the National Industrial Traffic League, of which ICI is a member, is on record against the railroads' discontinuance of ACI.

Please accept my apologies for the length of this letter. I hope it may be of some benefit to you in your efforts towards building a more viable national rail system.

Yours very truly,

Original Signed By

D. E. LONG

D. E. Long
General Traffic Manager

cc: Mr. James E. Bartley, Executive
Vice President, NITL
Mr. Charles A. Kelly, Chairman
NITL Data & Computer Systems Committee
c/o Alcoa, Pittsburgh, PA
Mr. Fred Gutterman, Chairman
NITL D&CS Subcommittee on CLM, c/o GMC, Detroit
Members - NITL D&CS Committee
The Honorable Thomas B. Evans, Representative, U.S.
House of Representatives, Washington, D. C.

STATEMENT
OF
OHIO GRAIN, FEED & FERTILIZER ASSOCIATION, INC.
BEFORE THE
SUB-COMMITTEE ON
TRANSPORTATION AND COMMERCE
JULY 25, 1978

Statement by:

George G. Greenleaf, CEA
Executive Vice President
Ohio Grain, Feed & Fertilizer Association, Inc.
Box 151, Worthington, Ohio 43085

David L. Henderson
Transportation Consultant
Ohio Grain, Feed & Fertilizer Association, Inc.
Box 151, Worthington, Ohio 43085

The Ohio Grain, Feed and Fertilizer Association is an agricultural trade association representing among its membership approximately 600 country grain elevators in the state of Ohio.

Our member elevators suffered extreme hardship in attempting to move the 1977-78 grain crop from Ohio to the export and domestic market destinations. Bad weather was followed by extreme car and power shortages on the three major lines serving Ohio.

We have been working closely with the railroads to expedite the movement of grain, but not until July 1978 has the car shortage lessened.

We are still faced with a Conrail car ordering system, which drastically restricts our elevators' ability to order Jumbo hopper cars to meet their present and future needs. Conrail sets a maximum number of cars a country elevator is permitted to order. The number is a function of daily car loading capacity times the days per week Conrail switches the elevator. As an example, if an elevator can load 10 cars per day and is switched 3 times per week, the elevator could order a maximum of 30 cars from Conrail. If the elevator sold 100 carloads, no more than 30 cars would be carried in Conrail's grain car order books.

This Conrail system restricts the ability of our elevators to plan their shipments and financing of their inventory; reduces their annual grain volume and is causing financial distress to many of our country shippers and their farmer customers.

In addition to the Conrail car ordering problem, the Eastern railroads simply do not have the quantity of Jumbo hopper cars in good condition to meet the eastern transportation demands - domestic plus export.

Ohio Grain, Feed and Fertilizer Association recommends the following action steps be taken by the Federal Government:

SHORT RANGE

1. Get Conrail to change its car ordering policy to permit small country elevators to more nearly order their car needs.
2. Allocate federal funds or direct the railroads to allocate sufficient funds to repair bad order Jumbo Hopper cars.
3. Allocate federal funds or direct the railroads to allocate sufficient funds to repair bad order engines.

LONG RANGE

1. Establish a national Jumbo Hopper Grain car fleet of at least 10,000 cars. This plan could be modeled after the present rail-box plan.
2. Expedite continued maintenance of railroad-owned Jumbo Hopper cars and engines.
3. Expedite maintenance of both main and branch line road beds and tracks.
4. Set up efficiency standards for railroads - both management and labor.

We appreciate this opportunity to present the association action steps as set forth by our Transportation Committee and approved by our Board of Trustees.

**Institute of Scrap Iron
and Steel, Inc.**

July 28, 1978

The Honorable Fred B. Rooney, Chairman
Subcommittee on Transportation and
Commerce
Room 3150
House Office Building Annex No. 2
Washington, D. C. 20515

Re: Hearings on Freight Car Utilization,
July 25 - 26, 1978

Dear Mr. Chairman:

This letter is submitted on behalf of the Institute of Scrap Iron and Steel, Inc. (Institute), the national trade association representing the more than 1,530 member firms which process, ship or otherwise handle ninety to ninety-five percent of the purchased iron and steel scrap consumed domestically and exported.

The ferrous scrap industry relies on the railroads as the principal mode to distribute its products to markets. This reliance is based both on the efficiency inherent in using the railroads to carry such a bulk commodity, as well as on the fact that the majority of scrap consumers prefer, and in fact, require delivery by rail. These deliveries are made in plain (unequipped) gondola cars, when such cars are available.

Gondola availability obviously is limited by the absolute number of gondolas owned by the railroads, by the number of cars which are not in serviceable condition and by the utilization rate of gondolas. Before describing the one solution which the Institute believes will address all of these aspects of the gondola shortage problem, it is important to emphasize the magnitude of the freight car crisis as it impacts scrap iron processors.

The absolute number of plain gondolas owned by the railroads is shrinking rapidly. During the 1968 - 1978 period, the number of plain gondolas fell twenty-four percent. This downward trend is accelerating in the face of continued and increased demand for transportation. From January 1, 1977 to January 1, 1978 the number of plain gondolas plunged further from 142,545 to 134,516, the largest decrease in railroad ownership of plain gondola



cars in any single year between 1968 and 1978. And the imbalance between shipper orders for gondolas and the railroads' ability to provide the requested equipment recorded an average daily car supply shortfall of more than 4,800 gondolas in the week of May 13.* The trend for the first six months of 1978 indicates that there are not enough gondolas to meet scrap shippers' demand for cars even during the relatively "quiet" business conditions of the year 1978.

Equally as important as the shortage of cars is the condition of many gondolas. (Between July 1, 1974 and January 1, 1978, the number of bad order gondolas fluctuated from 8,215 to 16,109, averaging 12,700 cars out of service for repairs each month.) As long as the number of gondolas needing substantial repairs remains high, the railroads' ability to produce revenue is greatly impaired. On a monthly basis, the railroads lost millions in revenue traffic which an average of more than 12,700 bad order gondolas would have generated had they been in service between July 1, 1974 and January 1, 1978.

Even the adverse impact of having fewer gondolas could be offset to some extent by more prompt turnaround of the existing fleet. Unfortunately, the average number of gondola trips per year is down from the levels recorded in 1974.

What these numbers mean to scrap iron processors is (a) lost sales when contractually specified delivery dates cannot be met, (b) unnecessary expenses incurred in storing materials which normally would have been loaded directly in freight cars had the gondolas been provided and (c) great uncertainty about the ability to conduct business.

As a solution to the freight car supply difficulties facing the railroads and gondola users, the Institute supports the incentive per diem program which is the subject of a current investigation by the Interstate Commerce Commission. The IPD program would increase the rental rate railroad A pays other railroads when it uses their cars instead of its own. Normally, without IPD, railroad A collects the revenue based on the freight charges for moving goods in cars owned by another railroad. The car owning railroad only receives a rental fee from railroad A (basic per diem). One of the purposes of IPD is to give a railroad the incentive to buy more cars because these cars will earn a higher than normal rental fee when the owning railroad does not itself use the cars to generate freight revenue.

A second function of IPD is to encourage railroads to rebuild cars in disrepair and return them to the fleet of cars available to shippers.

* While gondola car shortage figures normally are not available to the public, in comments submitted June 1, 1978, before the I.C.C. in Ex Parte No. 252 (Sub-No. 2) the Chessie System Lines, Norfolk and Western and the Pittsburgh and Lake Erie together made available this above cited figure.

A third purpose is to improve the utilization rate by increasing the rental expense accruing on borrowed cars to the extent that nonowning railroads return these cars more promptly to the owning railroads.

The incentive per diem program represents the most advantageous solution to the gondola shortage problem. It offers the economic incentive both to increase the size of the car fleet via purchase and/or repair and to improve utilization.

The Interstate Commerce Commission has had Incentive Per Diem under consideration for three years and has not yet reached a final conclusion, having issued one favorable and one unfavorable opinion concerning IPD. The Institute believes that the gravity of the situation and the growing severity of the problem while the Commission's deliberations continue, is so significant that it has under study the feasibility of the direct purchase of gondolas by the scrap iron industry. This industry knows how to process scrap iron, not operate railroad cars, but the problem is so bad the industry may have to do both. However, the more reasonable solution to the gondola shortage problem is incentive per diem or IPD.

The Institute is hopeful that this solution will be implemented soon.

Sincerely yours,



Herschel Cutler

HC:skb

STATEMENT OF RAYMOND L. KASSEL, DIRECTOR

IOWA DEPARTMENT OF TRANSPORTATION

SUBMITTED TO THE TRANSPORTATION AND COMMERCE SUBCOMMITTEE OF

THE HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

July 25, 1978

(Introductory Comments)

Fifteen percent of the corn and beans exported through New Orleans and virtually all of that exported through Houston comes from Iowa. In Iowa we grow over a billion bushels of corn and beans each year and more than half of last year's crop remains in storage today. As you might imagine, the grain car shortage is of critical importance to Iowans.

At Iowa DOT we've been working on the problem since early in January when the shortage first became serious. We don't have any magical solutions or answers to offer. Often we just have to say, "We don't know." We do, however, have some ideas which we would like to share with this committee.

First, I would like to bring you up to date on the situation in Iowa. As of June 29, we were 872 box cars and 5,963 hopper cars short of the orders being placed by Iowa shippers. This represents a 20% improvement over a month earlier. However, we expect that improvement to be temporary. As of last Friday, the difference between the price being paid at the Gulf for a bushel of corn and the price for September delivery at Chicago was only 8¢. With the basis that narrow, many of our Iowa farmers and elevators are holding their corn in anticipation of better prices between now and fall harvest. We estimate that as little as a 10¢ to 15¢ increase in the Gulf price for corn, given the volume of grain in storage and the cash flow situation facing most of our farmers, could result in renewed demand for rail cars in Iowa. Our prediction is that the grain car shortage will continue at current levels or higher until opening of the rivers next spring.

With that information as background, I would now like to address the car shortage itself. In our investigation we have found the car shortage to be made up of two, closely related, but separate problems. The first is the physical shortage of grain cars and the second is the controversy over alleged shipper discrimination.

The physical shortage of grain cars which we have faced in Iowa since January of this year can be attributed to four major causes: 1) wide fluctuations in car demand, 2) poor car utilization, 3) weather, and 4) disasters. I would like to address the first two of these in some detail.

Car shortages do not result from changes in the supply of cars. Rather, they occur when the demand for cars exceeds the available supply. In fact, it might be more accurate to refer to the "car shortage" as a "demand excess."

Since late last December we have been trying to market two years' worth of Iowa grain within a short period of time. As a result, we have exceeded the capacity of our transportation system. Remember that the barge shortage has been just as pronounced as the rail car shortage. In recent weeks, barge rates have ranged as high as 300% of tariff.

It is not reasonable to argue that the railroads, the federal government, or anyone else should invest large sums of money in new car acquisition. The fact is that the railroads are buying new cars now. There are also substantial numbers of cars being built for leasing, and promising programs are underway at such railroads as The Rock Island for car repair and rehabilitation. These increases in the car supply are all that should be expected given the economics of grain transportation. It is not a good investment to build grain cars for peak demand periods if those cars are going to sit idle for six to eighteen months when demand is low.

And, even if more new cars were the solution, it would take much too long to obtain them, since delivery on cars being ordered today will not be until 1981 at the earliest.

For that reason we have been focusing our efforts not on encouraging new car purchases but on finding ways to smooth out the wide fluctuations in demand for grain cars. The most commonly discussed approach to this is peak period pricing, or seasonal rates. There is no overriding reason why the railroads should not be more aggressive in attempting to implement seasonal rates. We believe that the railroads' fears that grain shippers will shift to other modes are overstated when you consider that many of those same shippers are today completely unable to obtain rail cars during shortages. The railroads should also be reminded that the congressional intent behind the seasonal rates provision of the 4R Act was that rate increases during peak periods would be tied to rate decreases during off-seasons.

One of the most important areas deserving government attention is grain car utilization. In Iowa this spring we had grain cars take as long as 45 days to go to the Gulf and return . . . a trip which can be made in 15 days or less. With turnaround times like that we actually have only one-third of a car for every car theoretically in service. Yet, little is known about where grain cars spend that 45 days and why. It is too easy to blame the railroads for poor car utilization; some of the problem may relate to control of the cars for marketing purposes. The point is that no one really knows.

At Iowa DOT research is underway, with the assistance of AAR, to determine what the components of our grain car turn-around times are. At this point we can identify one specific area where improvement can be made: mainline upgrading. It is critical that the FRA's Title V money be applied quickly to this problem.

There may not be much we can do to prevent bad weather or disasters, but a real improvement in our response to them is possible. This, in fact, has been one of our major focuses at Iowa DOT. We have, over recent months, become convinced that the information which LCC relies upon in issuing car service orders and in making other decisions is simply not adequate. We have also become convinced that LCC needs to develop the ability to anticipate car service problems and take preventive action rather than to respond to the problem after it's too late. To accomplish this goal, Iowa DOT has been working with LCC on the development of a grain car simulation model.

The purpose of this model is to provide LCC with the ability to: 1) forecast car supply and demand; 2) analyze impacts of new developments in export markets, prices, or weather; 3) estimate the impact of proposed car service orders before they're issued; and, 4) monitor the impact of car service orders after they are issued to see if they are having the desired effect. This model is in preliminary stages only and is currently being reviewed by the LCC, the Association of American Railroads, and the professional staff members from this committee. We anticipate that actual development of the

simulation model itself will be done by a consultant experienced in this field. Before that contract can be written, however, a source of funding needs to be identified and some commitment needs to be obtained from the ICC that the model will actually be used once it is developed. We feel this is the most appropriate approach to this problem, and we would like to ask this committee's assistance in urging ICC to participate in the model's development and to attempt to employ the model in its decision-making processes.

As I mentioned in my introductory comments, the grain car shortage is, in fact, made up of two separate, but related, problems. I would now like to turn to the second of these which is the controversy over alleged shipper discrimination.

Section 1 of Title 49 of the U.S. Code obligates common carriers by rail to adopt just and reasonable practices with respect to distribution of grain cars among shippers. During times when there are more grain cars than needed to fill orders, the just and reasonable requirement is not, in general, a subject of contention. However, the existence of a grain car shortage creates an atmosphere in which distribution of scarce equipment becomes a matter of great importance to those who must rely on the railroads to ship grain to market.

Most railroads do not have a policy or formal system for the distribution of grain cars among shippers. Those few railroads which have developed car distribution procedures generally use methods which rate shippers on quantitative measures such as loading capacity and history of use. However, the extent to which cars are actually distributed according to these systems in times of shortage is unknown. In any case, the shippers are not informed of their ratings. Thus, most shippers do not know on what basis their carrier is distributing cars . . . if, in fact, any consistent, non-discriminatory basis exists.

It is the responsibility of the ICC to ensure fair and equitable distribution of railroad-owned grain cars. However, the car service issues which arise in times of grain car shortage cannot be adequately handled by the commission through exercise of its emergency powers. The fact is that car service orders combine some of the worst features of government regulation. Car service orders are too inflexible to allow carriers and shippers to devise their own best approaches to shortage-related problems, yet they are short-term rules designed for the specific problem immediately at hand and create an uncertain environment for industry decision making. Coupled with this, car service orders are often not issued until long after an emergency situation exists.

It is time that the Commission define through its rulemaking authority, the phrase, "just and reasonable practices with respect to car service." For this reason the Iowa DOT will, later this summer, petition the ICC under Rule 44 of its Rules of Practice, to institute rulemaking proceedings for the purpose of issuing a car service rule. The purpose of this rule would be to implement the just and reasonable standard of Title 49 of the U.S. Code as it applies to the distribution of grain cars.

Whether or not any carriers are in fact violating this provision has no direct effect on the need for rulemaking. The problem is that, except in cases of obvious discrimination, the ICC has no means of determining whether the grain car distribution practices of a given carrier are in violation of Title 49.

The primary guardians of the law in this areas must be the shippers themselves since the ICC cannot, without an enormous staff, constantly monitor

and audit the legality of carrier practices. Yet, the shippers have no definition of just and reasonable to apply to the service they receive. The fact is that wide-spread disagreement exists -- not only between carriers and shippers, but among shippers and among carriers as well -- on what Title 49 requires in the way of grain car distribution. In times of shortage, an environment is created in which suspicions of discrimination will quite naturally surface and be subjects of concern. And, certainly, any time the demand for rail cars exceeds supply, opportunities exist for the unfair pricing or distribution of railroad-owned equipment.

In the absence of a car service rule implementing Title 49, the grain shippers in this country do not have the benefit of the protection which this provision in the law was intended to provide.

Iowa DOT has developed a proposed rule, a copy of which is attached to this testimony. I would like to briefly describe the proposed rule to you. First of all, this rule would be in effect only during periods of grain car shortage. The proposed rule requires that each railroad develop a shipper rating system which would be used to allocate cars among grain shippers on a just and reasonable basis during periods of shortage. The proposed shipper rating systems would be submitted to the ICC for review and approval. The railroads would also be required to notify the shippers along their lines of what the rating system is and how it works.

Adoption of this rule would thus clear up the aura of mystery and uncertainty which, in the eyes of grain shippers, accompanies any grain car shortage. Certainly, no rating system will please all shippers; but, Title 49 will never have the force of law until the shippers have some definition of the "rules of the game" against which to compare their railroad's actual practices.

Finally, the proposed rule recognizes that shipment of grain by unit train and by assembled single car shipments represent two, substantially different, types of service. During periods of shortage it is within the constraints of Title 49 to allow railroads to allocate the cars to achieve the best possible utilization of scarce equipment. The critical public interest during these times is in the efficient and expeditious movement of grain to market. Car service orders which limit the allocation of cars to one of these classes of service are based on an unnecessarily narrow interpretation of the meaning of "just and reasonable practices." Hence, this rule would, during periods of shortage, remove all restrictions on the number or proportion of railroad-owned grain cars to be allocated to unit train or single car service.

We feel this rule represents, not additional regulation, but the partial deregulation of grain movement by rail. It is practically impossible for anyone to know what government restrictions may be in effect during shortages. This is because ICC has chosen to deal with the grain car distribution problem by issuing large numbers of car service orders whenever shortages occur. As I pointed out earlier, ICC does not know whether the impact of its orders is good or bad -- often, they could actually be counterproductive.

Our proposed rule would replace existing and future car service orders issued for the purpose of forcing an equitable distribution of grain cars (including 1304, which limits the proportion of cars the railroads may assign to unit train service.) Under this proposed rule each railroad would be free to develop a distribution system which would best meet its special needs and problems. This system could -- and should -- be as flexible as possible. As you know, flexibility was one of the major concerns raised by the railroads during the hearings on Ex Parte 307. I would like to ask this Committee to help us in our efforts by urging the ICC to institute proceedings pursuant to our petition for rulemaking and by urging ICC to give serious consideration to Iowa DOT's proposed rule.

I would like to summarize with four points:

- (1) new car acquisition is not the answer to grain car shortages in the near future;
- (2) the discrimination issue should be of as much concern as the shortage itself, and must be settled through careful rulemaking which is deregulatory in nature;
- (3) the ICC does not know whether the impacts of its actions are beneficial or adverse and needs to develop the ability to anticipate car service problems and take positive action;
- (4) the best hope for long-range solutions to car shortages lies in improved car utilization and smoothing demand fluctuations.

IOWA DEPARTMENT OF TRANSPORTATION

PROPOSED RULEDistribution of grain cars

(a) It is the intent of the Commission to encourage the efficient utilization and just and reasonable allocation of grain cars used in the movement of grain and grain products. When used in this section, unless the context otherwise requires:

1. The term "grain" means any unprocessed, raw, whole grain, including but not limited to barley, buckwheat, corn, oats, rice, rye, sorghum, soybeans, and wheat.
2. The term "grain products" means any non-liquid, processed product of raw, whole grain as defined in this section.
3. The term "unit grain train" means a multiple-car shipment of grain or grain products subject to a single tariff requiring fifteen (15) or more grain cars, organized and operated as a unit from a single origin point to a single destination point and pursuant to one bill of lading.
4. The term "grain car" means any railroad car used for the transportation of grain or grain products, including but not limited to a covered hopper car or boxcar.
5. The term "shortage of grain cars" means when the supply of cars available for the transportation of grain is less than the grain car requirement of shippers of grain. The existence of a shortage of grain cars shall be determined by each carrier with respect to its own operations, or by the Commission.

(b) It shall be the duty of every carrier by railroad to furnish adequate car service and to make just and reasonable distribution of cars for the transportation of grain or grain products on behalf of shippers or receivers served by the carrier, whether located upon the carrier's line or lines, or customarily dependent upon the carrier for grain car supply. During any period of shortage of grain cars it shall be the duty of the carrier to maintain and apply just and reasonable ratings, approved by the Commission, as to each grain or grain products shipper and to distribute grain cars proportionately based upon such ratings. It shall be the further duty of the carrier to count each and every grain car used by a shipper against that shipper. Grain cars supplied or owned by shippers or receivers of grain or grain products shall not be considered a part of the carrier's grain car fleet or included in determining questions of distribution or grain car count. Nothing in this rule shall be construed as requiring the transfer of cars currently used in transporting other materials or products to grain or grain products service.

(c) In applying the provisions of this section, unit grain train service and non-unit grain train service shall be considered separate and distinct classes of service, and a distinction shall be made between these two classes of service and between the cars used in each class of service. Whether or not ratings as to the grain and grain products shippers or distribution of cars are just and reasonable shall be determined within each such class and not between them.

(d) In reviewing each proposed ratings system the following procedures shall be followed:

1. Each carrier by railroad subject to this section shall submit to the Commission its proposed system within 180 days from the enactment of this section. Each carrier shall attach to the proposed system an affidavit of notice certifying that a copy of the proposed system and a notice of intent have been sent to 1) the chief executive officer of each State in which any part of the carrier's railroad operation is located, 2) the director of the state agency that is charged with the duty to supervise or regulate carriers by railroad for each state in which any part of the carrier's railroad operation is located, and 3) all grain and grain products shippers who have made use of the carrier's line of railroad during the twelve months preceding the submission.
2. The notice of intent, referred to above, shall contain a brief summary of the proposed system, and shall state the date on which the proposed system will be filed with the Commission and the date on which any comments must be filed.
3. Upon receipt of a carrier's proposed ratings system and affidavit of notice, the Commission shall docket the same. Any shipper, State or interested party wishing to file comments with the Commission concerning the proposed system shall do so no later than thirty days after the submission of the proposed ratings system with the Commission. A carrier may file and reply to a comment within twenty days after filing of the comment with the Commission. There shall be no further pleadings filed with the Commission or hearings conducted, unless otherwise ordered by the Commission for good cause shown.
4. The Commission shall approve or disapprove each proposed ratings system within 180 days from its submission, and if any such action is not taken by the Commission within 180 days from the submission of the system the system shall be deemed approved.
5. Provided the notice requirements set forth in subsections d(1) and (2) are satisfied, a carrier may file with the Commission a revised ratings system at any time after approval of the initial ratings system. Upon the proper filing of the revised ratings system the procedures and time limitations set forth in subsections d(3) and (4) shall apply.
6. In the event the initial ratings system is disapproved by the Commission, the carrier proposing the ratings system shall file a revised ratings system within 60 days from the date of disapproval. The filing of the revised ratings system shall be subject to the notice requirements in subsections d(1) and (2).
7. The Commission shall not restrict the number or percentage of grain cars allocated to unit grain train or non-unit grain train service, and all service orders providing for such restrictions are hereby vacated.

STATEMENT BY C. D. McDOWELL
BEFORE THE SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
OF THE HOUSE OF REPRESENTATIVES, July 25, 1978

Chairman Rooney and Members of the Subcommittee:

I am C. D. McDowell, President of the Harlan County Coal Operators' Association, Harlan, Kentucky. I also appear here today to speak for the Knatt-Letcher-Perry Independent Coal Operators' Association. These two associations are composed of over 140 coal producing companies in Eastern Kentucky. Last year, our members produced more than 12 million tons of coal.

I welcome this opportunity to appear here today because your hearing is most timely. However, I want to emphasize at the outset that our critical coal-hauling problems are long-term ones which pre-date any current national car shortage which may exist. We believe that your subcommittee needs to focus on this specific transportation crisis, not only because of its adverse national effects on coal production, but also because it stems from a flagrant abuse of railroad monopoly power, which perhaps cannot be fully addressed without additional Federal legislation.

These problems arise from the operation of the Louisville and Nashville Railroad (L&N). Seaboard Coast Line Railroad Company is the parent of the L&N, and Seaboard Coast Line Industries is the parent of the Seaboard Railroad. These corporations have common or overlapping management, and the two railroad corporations are controlled by Seaboard Industries.

The L&N is the only practical means of transportation for the Harlan and Hazard coal fields. Members of our associations have been actively seeking proper service from the L&N for over a decade. By contrast during this period, no other carrier of Kentucky coal has had such serious, chronic service deficiencies.

Again, I emphasize that we are not referring to any temporary car shortage, but instead to what has been the continuing failure of the L&N to provide adequate, non-discriminatory transportation. Month after month, year after year, management of these corporations has obviously chosen to operate at a level of service markedly below that necessary to meet the needs of shippers totally dependent upon the L&N.

While almost all L&N coal car service has been inadequate, single car shippers have clearly been hurt the most. In 1969, the Harlan County Association filed a formal complaint against the L&N with the ICC at a time when the railroad was only providing about sixty percent of service requested. By October last year, the L&N was providing Eastern Kentucky single car shippers only about twenty-eight (28%) of their orders, and in recent months this service has eroded away to virtually nothing.

A. Daniel O'Neel, Chairman of the Interstate Commerce Commission, in a speech in Williamsburg in early June, restated his agency's and the Federal Government's commitment to attaining:

those basic goals of regulation--adequate service to the public, relative equal access to the market place by large and small shippers, and a stable, dependable transport system.

However, this statement of national regulatory objectives and President Carter's energy goals, as well as the interest of many Kentuckians and consumers dependent upon Eastern Kentucky coal, are being totally frustrated by the L&N's abysmal car service record. In fact, the railroad's inadequate coal-hauling service continues to result in major employment losses, financial harm to the operators, and general economic problems for most of Eastern Kentucky.

The L&N has long had the reputation for being one of the more profitable railroads in the country. Last year, the L&N paid fifteen million dollars in dividends to its parent. Moreover, Seaboard Coast Line Industries reported record earnings, up more than twenty percent over the previous year. It appears that this parent has on its books approximately one hundred and seventy-five million dollars in non-consolidated investments and non-transportation properties, including several Florida publishing companies and a hotel in New Orleans.

It is shocking that this corporation continues to use such extensive resources for diversification while flagrantly ignoring the duty of the L&N to "provide and furnish transportation upon reasonable request" and to "furnish adequate car service" as required by the Interstate Commerce Act. All railroads must first serve the public. Such a duty is paramount to earning greater dividends for private stockholders.

Over the past several years, numerous bureaus within the Interstate Commerce Commission have again and again investigated L&N operations. They have compiled a massive record relating to this carrier's inadequate and discriminatory service. Unfortunately, as of the end of last week, the agency had taken no significant action. I am submitting copies of certain of these reports as exhibits to my statement. These documents further emphasize that aggressive and comprehensive action by the ICC is long overdue.

Last month we presented this serious problem directly to Chairman O'Neal. He expressed his strong commitment to ensuring that the L&N fulfill its obligations. We want to believe the Chairman. However, it is essential that the ICC act at once to ensure that the L&N provide adequate and equitable service to all coal shippers on a schedule which provides both short-term relief and long-term stability in coal transportation. During 1977 and 1978, while the ICC has failed to take appropriate timely action on its own staff findings and recommendations, the railroad's practices have continued to cause substantial irreparable harm.

All of Kentucky's government officials are deeply concerned about the long-term inadequate rail service by the L&N. Congressman Carl Perkins and Congressman Tim Lee Carter, Senator Dee Huddleston and Senator Wendell Ford, Governor Julian Carroll and Kentucky Commerce Commissioner Terry McBrayer are working in a united front with us and all Kentuckians adversely affected by this intolerable railroad operation. We look forward to continued effort by each of them within their respective official areas of responsibility, and I know they all stand ready to work with this subcommittee in appropriate oversight proceedings and legislative deliberation which may be necessary to produce prompt relief. I am also enclosing as exhibits to my testimony relevant recent communications from several of these officials.

Accordingly, we ask this Subcommittee to work with us and our officials to secure full and immediate application of the resources of the Interstate Commerce Commission, the Federal Railroad Administration, and the rest of the Federal Government to this important national transportation and commerce problem. We ask you to take whatever actions are necessary to once again make the fundamental protections of the Interstate Commerce Act available to our coal shippers, to all Kentuckians and consumers everywhere dependent upon this industry, and to our country which must look to coal as the answer to the nation's energy needs.

STATEMENT BY
THE NATIONAL COAL ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON TRANSPORTATION AND COMMERCE
WITH RESPECT TO
FREIGHT CAR UTILIZATION
AND THE NATIONAL CAR SHORTAGE
U.S. HOUSE OF REPRESENTATIVES
AUGUST '8, 1978

The National Coal Association, which represents the major coal producers and sellers of the United States, appreciates this opportunity to present this statement to your committee discussing freight car utilization and the national rail car shortage.

Rail transportation serves as the vital link between the coal producer and the coal consumer for over one-half the coal produced in this country. Thus, the current hopper car and locomotive shortages experienced in many of the eastern and midwestern coal fields are of utmost concern to the coal industry. Without adequate transportation, coal production in affected areas can be significantly disrupted with the attendant loss of employment and economic benefits to those areas. Inefficient or inadequate transportation results in increased costs of coal to utility or industrial customer and thus, ultimately to the individual consumer. We applaud your recognition of this problem and this committee's action in holding hearings on the subject.

This statement will cover four major points.

- . First, a brief statement of the problems of car shortages as they exist today in the coal fields.
- . Second, the outlook for coal production and consumption in the United States over the next decade.
- . Third, a discussion of the importance of a financially healthy and efficient rail system which is often the only link between producer and consumer.
- . Finally, our recommendations to both the Committee and to Congress.

Current Car Shortages

Many coal producers in the midwest and Appalachian states are currently experiencing a severe shortage of hopper cars and locomotive power. One of the major eastern coal hauling railroads showed a decline in service from just below 50 percent of those cars requested in February 1977 to below 17 percent by April 1978. Another of the NCA members reports that severe car shortages exist today at several of its midwestern mines. Another coal producer is reporting that cars on two major coal hauling roads in Appalachia are in short supply.

Other examples of such shortages could be supplied. But the problems of the railroads should not be oversimplified by characterization as a "hopper car shortage" or "locomotive shortage" problem. These and such factors as deteriorating road beds, track conditions and outmoded rail yards, are only manifestations of an issue that is far more complex -- the failure of some major coal hauling railroads, as common carriers, to provide adequate and equitable service to all customers on their lines.

Financial constraints, restrictive ICC regulations and nonproductive work rules and inadequate performance all contribute heavily to inadequacy of coal transportation. It is imperative that these problems be addressed because of the potential adverse impact on consumer costs, on the economy and on achieving the nation's goals for increased coal production and use.

Future Outlook for Coal

In its recent report, "Transporting the Nation's Coal - A Preliminary Assessment", the Department of Transportation pointed out,

"For the next decade and beyond, moving the Nation's coal will present a stern challenge to our transportation system. Meeting this challenge will be crucial to the success of the National Energy Plan, which calls for a two-thirds increase in annual coal production by 1985."

That two-thirds increase will mean a production level of some 1.2 billion tons of coal by 1985, a level which can be reached if there is sufficient demand for that amount of coal. Our own estimates show that 1985 demand should approach the levels envisioned by the NEP.

Questions have been asked about the ability of the coal industry to produce that much coal if the demand does indeed materialize. But, there are many reasons to be optimistic about the adequacy of future coal supplies.

- . First, there is the current productive capacity of the coal industry. In 1977, about 690 million tons of coal were produced, but this is only an incomplete indicator of productive capacity. In fact, the productive capacity of the industry has been expanding more rapidly than production itself in recent years. We had recently estimated that capacity has been available to produce as much as 100 million tons of coal per year above actual production, which is of course limited by demand. These estimates were confirmed last fall, when coal production levels in September and October averaged between 15 and 16 million tons per week. On an annual basis, production at this level would exceed 800 million tons.

- . Second, an NCA study (Attachment A) of the approximately 100 firms that are expected to be the largest producers of coal in 1985 shows that these firms have plans to open or expand 332 mines, providing an additional 594 million tons of coal annually by that date. Presumably, the approximately 2,000 smaller companies which were not covered by the study -- but which produced about 250 million tons of coal in 1976 -- are also planning to expand production. Therefore, subject to the constraints which will be enumerated below, the industry should have the capacity to produce well over 1.2 billion tons in 1985.
- . Third, recent Department of Energy (DOE) data collected by the Federal Energy Regulatory Commission (FERC) indicates that about 69% of the coal which will be required for new coal-fired electric generating units in 1985 is already under contract. There could, of course, be delays in getting some coal-fired units on line, and this could in turn delay the opening or expansion of some mines. However, the DOE data demonstrates that both producers and users are well along in their advance planning.
- . Finally, the coal industry is a highly competitive industry. New companies continue to enter the industry, and continue to increase competition.

Many potential constraints on coal supplies have been cited, including the effects of the Surface Mining Act, the 1977 amendments to the Clean Air Act, the virtual moratorium on leasing of federal lands, and other governmental constraints. These will not be discussed in this statement other than to recognize their existence and the facts that:

- . all will impact on the costs of mining coal and in some cases on the capability of the producer to mine coal and,
- . all will impact on the geographical distribution of both coal production and coal use and thus, on the transportation system required to move the coal from mine to market.

Adequate Transportation must be Available if Coal Production is to Expand.

Given a reasonable resolution of the above listed constraints, coal production will meet coal demand but to meet that future demand, a viable transportation system is absolutely necessary. What will the transportation system be required to do in 1985? A detailed look at the current transportation modes of coal shipped to utilities in the United States, compared with the mode of coal transport expected to be used by units coming on line through 1986 is outlined in Attachment B. It is evident that the railroads, which move over half the coal going to utilities now, will move an even larger percentage of utility coal in 1986. It is equally as evident that the railroads must develop and increase their coal hauling capability concurrently with the development of the coal industry.

A second factor which will require an expanded rail transportation system is the expected increase in the average distance the coal is hauled. In the past, the larger percentage of coal was produced and consumed east of the Mississippi River, moving relatively short distances from mine to market. With the development of our Western coal reserves and the market for that coal not only in the production states, Montana, Wyoming, Colorado, Utah, but in the Southwest and Midwest (never before a coal market) as well, the distance from mine to market increases sharply requiring further expansion and modification of over an entire transportation system. A financially healthy and efficient rail system must be an integral part of our overall transportation network.

Recommendations

A viable transportation - rail - network is essential to increased coal use. The situation evident today, inefficient car utilization, trains moving at slow speeds, inefficient work rules and regulations which hamper rather than aid the railroads in their service performance must be addressed and solutions found. We hope that Congress will continue to focus attention on:

- . The financial constraints on the railroads which prevent acquisition of adequate equipment and proper maintenance of track and road beds.
- . ICC regulations which increase costs and add to the inefficiency of rail operations.

These hearings on freight car utilization and the national car shortages are a step in the right direction. We would recommend further that this subcommittee:

- . . thoroughly explore the short term problem of car shortages as specifically related to coal transportation.
- . second, possibly through oversight hearings on future energy transportation needs, evaluate the various studies and analysis on energy transportation that are currently underway in DOE and DOT.
- . third, secure firm information from railroads on specific plans and financial commitments to maintain and improve coal carrying capacity (including road beds, rolling stock, yards) and efficiency over the next few years.
- . assess the various ICC regulations and tariff setting procedures which are increasing transportation costs and adding to inefficient rail operations.

The National Coal Association appreciates this opportunity to file this statement with the committee.

CURRENT MODE OF TRANSPORTING BITUMINOUS COAL
TO UTILITIES AND PROJECTED MODE FOR NEW UNITS
(Million Tons)

| | <u>Quantity</u> | <u>% Total</u> | <u>Quantity</u> | <u>% Total</u> |
|--|-----------------|----------------|-----------------|----------------|
| Rail | 254.7 | 52.2 | 258.2 | 62.2 |
| Truck | 63.2 | 13.0 | 67.7 | 16.3 |
| Minemouth | 67.7 | 13.8 | 16.8 | 4.1 |
| River, Tide- water & Great Lakes | 102.4 | 21.0 | 33.9 | 8.2 |
| Pipeline | -- | -- | 8.7 | 2.1 |
| Unknown | -- | -- | 29.6 | 7.1 |
| | <u>488.0</u> | <u>100.0</u> | <u>418.9</u> | <u>100.0</u> |

1/ Deliveries to existing power plants in 1977.

2/ Projected mode of transport to units coming on line 1977-1986.

SOURCE: Distribution of 1977 Bituminous Coal and Lignites Department of Energy.

Status of coal supply contracts for new electric generating units 1977-1986. Department of Energy.

STUDY OF
NEW MINE ADDITIONS
AND
MAJOR EXPANSION PLANS
OF THE
COAL INDUSTRY
AND
THE POTENTIAL
FOR FUTURE COAL PRODUCTION

An Analysis by
The National Coal Association
November, 1977

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National Coal Association has undertaken an extensive analysis of the outlook for coal demand and supply. As part of that study NCA has assessed the potential for future coal production to see what can be produced if there is sufficient demand.

Three factors must be considered before the production potential of the industry can be determined:

- . Current Productive capacity
- . Probable depletion
- . Projected coal mine expansions and additions

CURRENT PRODUCTIVE CAPACITY

In 1976, coal production set an all-time record, 665 million tons. In 1977, production is expected to be about the same, or slightly higher.

The current productive capacity of the industry is much greater than these production levels would indicate.

- . analysis conducted by this Association and by others has suggested that in mid-1977 the industry's annual production capability approximated:

| | |
|-------|-------------------------|
| East | 630 million tons |
| West | <u>150</u> million tons |
| Total | 780 million tons |

- . A production capacity of about 780 million tons on an annualized basis has been achieved in the months September, October and November, 1977, during which time production consistently exceeded 15 million tons per week. In the week ended November 5, 1977 production reached an all-time high of 16.1 million tons. This rate, if sustained, would result in an annual production of almost 800 million tons.

PROBABLE DEPLETION

Mine closings brought about by depletion of reserves, or declines in productivity coupled with other inflationary factors which make a mine uneconomical to operate, or loss of market due to quality of coal, continually reduce available existing productive capacity. Experience in the last few years has suggested that an appropriate estimate of this "depletion" factor might be 3 percent per year. This factor should only be applied to the productive capacity east of the Mississippi River as mines in the West are too new to be measurably affected by depletion. Accordingly, our best estimates show, barring a rash of mine closings because coal cannot meet new Clean Air Act requirements, that approximately 12 million tons new production per year is needed for "replacement" purposes.

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PROJECTED COAL MINE EXPANSIONS AND ADDITIONS

To obtain an indication of the new production which can be expected to come on line through 1985, NCA conducted an industry study of new coal mines and major expansions of existing mines.

NCA surveyed over 100 major coal producers and potential coal producers. Their response indicates that:

Nationally:

- . 594 million tons annual production would be brought on line 1977-1985. This 594 million tons would come from
 - o 142 mines operating at the end of 1976, which plan to add additional annual production of 170 million tons through 1985.
 - o 190 new mines which would be opened 1977-1985 with an expected annual production of 424 million tons.

In the East:

- . Expansion of 95 mines and the opening of 111 new mines would bring on line 199 million annual tons of new and replacement production in the 1977-1985 period.
- . Just over 155 million tons, 78.0 percent, would be mined underground; 44.5 million tons, or 22 percent, would be mined on the surface.
- o 123 million tons, or 61.6 percent, of the new production will be for steam coal; 76.6 million tons, 38.4 percent, will be for metallurgical use.
- o Almost all — 92.6 percent or 76.6 million tons — of the total planned new or replacement metallurgical production 1977-1985 would be in the East. Two eastern states, West Virginia and Alabama, account for almost 60 percent, 48 million tons, of the planned metallurgical coal production.

In the West:

- . Expansion of 47 mines and the opening of 79 new mines would add 394 million tons new production in 1977 through 1985. (This is new production as replacement is not a factor in the relatively new western coal industry.)
- o Over 90 percent of the new production in the West, some 358.8 million tons, will be surface mined; 98.5 percent (388.2 million tons) will be for steam use, in utility boilers and for industrial use.

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- o The 388.2 million tons planned new steam production in the West represents over 75 percent of all reported steam coal production additions in the United States; 40 percent of the national steam coal total is scheduled to come from one state -- Wyoming.

TYPE OF MINING AND USE OF COAL:

The following table summarizes the characteristics of the new and replacement production which the NCA study shows coming on line 1977-1985. Detail on individual mines as well as state summaries by use and by type of mine are appended to this report.

NEW PRODUCTION ^{1/} AT MINES COVERED BY THIS SUMMARY, 1977-85 (Millions of Tons)

| | <u>East</u> | <u>West</u> | <u>Total</u> |
|-----------------|-------------|-------------|--------------|
| Use: | | | |
| Steam | 123.0 | 388.2 | 511.2 |
| Metallurgical | 76.6 | 6.2 | 82.8 |
| Type of Mining: | | | |
| Surface | 44.5 | 358.8 | 403.3 |
| Underground | 155.1 | 35.6 | 190.7 |
| Total | 199.6 | 394.4 | 594.0 |

^{1/} Includes both new and replacement production.

PROBABLE EXPANSION NOT COVERED:

This is not a complete picture of the potential coal mine expansions and additions which would occur by 1985 because:

- The study results reported herein do not represent the expansion plans of the entire coal industry. This study represents plans of coal producers which accounted for 65.6 percent of output in 1976 as well as most organizations that are expected to become major coal producers by 1985.
- The plans reported for responding companies are, in many instances, far from complete. Some firms did not consider their plans for the 1982-1985 period sufficiently firm to warrant specific identification of those plans. Additionally, it is believed that plans reported herein for western mines are more complete than are the plans for eastern mines.

All these factors mean that actual production additions, and thus the actual capability of the industry to produce coal, can be higher than the data reported would indicate.

POTENTIAL CONSTRAINTS ON PRODUCTION:

On the other hand, coal mine additions and expansions will depend on factors which could delay or otherwise adversely affect the plans reported herein. These factors include:

- . Demand — Historically the industry has been demand constrained, and currently has the capability of producing almost 800 million tons per year. The rate of growth in demand for coal will dictate the rate of expansion of the coal industry. Constraints on the utilization of coal could be such as to adversely affect the forecast growth in the demand for coal. Without a market, a coal mine will not be opened or expanded.
- . Government Constraints — Potential constraints on coal production can be imposed by local, state, and federal governments. These include, on the federal level:
 - o Final decisions by the Secretary of the Interior on interim and final program regulations which are being promulgated under the recently enacted federal surface mining law.
 - o Actions by the federal government on coal mine health and safety, including: (a) final form of the regulations promulgated under recently passed amendments to the 1969 Coal Mine Health and Safety Act, and (b) actions by the Federal Mining Enforcement and Safety Administration (MESA) which apparently involve a new, far more rigid enforcement campaign.
 - o Actions by Interior Department and the Courts on future leasing of publicly owned coal lands managed by the federal government, including (a) the current Interior Department review of the entire leasing program — under which there has been a virtual moratorium on leasing since 1971; and (b) a recent decision by Judge Pratt of the D.C. Federal District Court in the ERDC vs. Hughes case — which held that Interior must come up with a new Environmental Impact Statement and which threw out Interior's plans for proceeding with very limited leasing.
- . And on the state and local level, plans for mine expansions and additions can be hampered by:
 - o Actions by state and local citizens' groups opposed to the expansion of the coal industry in their locale.
 - o Zoning regulations which could prohibit expansion of mining.
 - o State imposed surface mine and/or safety regulations.
 - o Unduly high state severance taxes.

SUMMARY

If the potential constraints identified above (such as regulations under the surface mine law, resumption of federal leasing, new health and safety regulations) do not turn out to be serious impediments to production and there is sufficient demand for these levels of production, the data now available indicate that the 1.2 billion tons of coal called for by the President could be produced by 1985. More specifically:

| | Million Tons |
|--|---------------------|
| . Production capability of the industry as currently demonstrated | 775 - 800 |
| . Expected depletion 1977 through 1985 ... | 108 |
| . Current plans as reported by major firms that will be producing coal in 1985 | 594 |
| . Expected production for producers not covered by survey | * |
| . Planned mine expansions and additions not reported by producers covered (mostly in the 1981-85 period) | * |
| | <hr/> |
| | 1.261 ** - 1.286 ** |

* No valid way of estimating.

** Does not include expected production additions of producers not covered by survey or planned mine expansions, additions not reported by producers listed herein.

METHODOLOGY

The new coal mine developments and major expansion plans detailed in this report were, in most part, obtained by NCA from an industry-wide survey conducted in late summer. NCA compiled data from several published mine expansion surveys and attempted to verify and update this information by means of direct survey of the companies in question. NCA contacted coal companies which accounted for 65.6 percent of 1976 production.

Most companies which are expected to be major producers by 1985, but are not yet producing coal, were also contacted. Responses were received from coal companies which accounted for 60.1 percent of 1976 production as well as for many of those companies not yet in production.

The information received from individual companies included mine name, state and county location, type of mine, planned use of coal, year of expected start-up, year of expected full operation (or 1985, whichever is earliest) and expected annual production at full operation (or in 1985). A mine by mine listing of expansion plans as reported to NCA is found in Table 7, following the text of this report. In addition to the information received from the companies responding to the survey, NCA has included some data which have not been directly verified because the companies to which these plans are attributed did not respond

to this survey. Plans unsubstantiated by NCA have been included only if they have appeared in one or more other published surveys on coal mine expansion plans. These data are clearly designated in Table 7. Approximately 17.8 percent of the planned production, 1977-1985, reported herein has not been directly verified by NCA.

After compilation of the survey responses and of the data from other sources NCA summarized the data by state, by use and by type of mining. Estimates were then made of expected production increments, by years: To summarize the data in this way, the following assumptions had to be made:

- . If a mine is reported as both underground and surface 50 percent of total expected production was assigned to each.
- . If a mine is reported as both metallurgical and steam, 50 percent of total expected production was assigned to each.
- . For purposes of estimation of production coming on line on a yearly basis, it was arbitrarily assumed that production for each mine comes on line in even yearly increments. In other words, if a mine is reported to come on line in 1978 and reach full production in 1981 with expected production of 4 million tons, a production addition of 1 million tons was assigned each year. This methodology probably results in an overstatement of production coming on line in the first years of the mine's operation, and is used only to give an indication of the yearly trend of new production coming on line.

QUALIFICATIONS

Several factors or qualifications should be considered when using the data included in this survey.

- . The plans reported herein are contingent upon the sale of the coal produced at a given mine. Production levels, therefore, could be expanded beyond, or reduced below, the levels indicated in this report. This depends upon market conditions prevailing at the time the mine is opened and during the life of the mine.
- . It should not be assumed that these expansion plans represent net production additions to the coal industry. These production plans include both new and replacement tonnages. In the West, the industry is relatively new, and it is doubtful that any of the reported tonnage is for replacement. In the East, however, it must be assumed that some of this production will be for replacement of existing production capacity as it is mined out or as productivity declines, thus reducing output of an existing mine. It has been suggested that this replacement could be 12 million tons per year.
- . The expansion plans reported herein do not represent the expansion plans of the entire coal industry. This listing

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includes plans (verified and unverified by NCA) of companies representing 65.6 percent of 1976 production, and plans of those companies listed herein which were not yet in coal production in 1976. Information solely from press releases, newspapers, etc., was not included. Information which has not been specifically verified by NCA was only included if that information had been published previously in some other survey. Further, the expansion plans reported herein ARE FAR FROM COMPLETE. This is especially true in the 1982-1985 period. It is to be expected that announced production plans will start to fall off 5-6 years in the future. Uncertainty becomes more pronounced as the time frame becomes more distant from the present. Information about expansion plans of the industry after 1981-1982 is very sketchy. In many instances, companies responding to any survey are reluctant to report information for mines which might open in the mid-eighties, as plans for those mines are very subject to change. The data for the period after 1981 must be used only with caution as these data are not representative of total probable coal production additions during those years.

This study is not directly comparable with the study on new mine additions completed by NCA in 1976. Last year's survey was based on expected capacity of the mines in question — this year's study reports expected production of the mines listed herein. Finally, the 332 mines included in this listing represent production plans (verified by NCA and unverified) of companies which produced 65.6 percent of total 1976 output as well as companies which were not in production last year. The 1976 study was much more narrow in scope as it represented plans of about 50 percent of 1975 production.

TABLE 1

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES

State Summary, by Use and Type of Mining
(Millions of Tons)

| State | Total Production at Mines Listed 1976 | Expected Incremental Production at Mines Listed, 1977-1985 | | | | Total Incremental Production 1/ Operation | Total Expected Production 2/ at Full Operation |
|---------------------|---|---|--------------------|------------------|---------|--|--|
| | | Use | Type of Mining | | | | |
| | | Steam | Metal- lurgical | Under- ground | Surface | | |
| East | | | | | | | |
| Alabama | 2,323 | 7,401 | 15,326 | 12,723 | 3,500 | 21,223 | 23,750 |
| Illinois | 2,327 | 21,948 | 11,250 | - | 7,976 | 31,196 | 56,950 |
| Indiana | 6,287 | 11,613 | - | 23,226 | 11,613 | 11,613 | 17,800 |
| Kentucky | 2,248 | 16,612 | 7,490 | 13,702 | 8,400 | 24,102 | 26,450 |
| Kentucky, Western | 1,623 | 17,877 | - | 12,341 | 5,296 | 17,637 | 19,500 |
| Kentucky, Total | 3,971 | 34,489 | 7,490 | 26,783 | 13,696 | 41,379 | 43,950 |
| Maryland | - | - | 2,000 | - | - | 2,000 | 2,000 |
| Ohio | 3,586 | 11,214 3/ | - | 6,716 | 2,300 | 25,244 | 26,050 |
| Pennsylvania | 3,806 | 12,469 | 11,795 | 1,410 | 1,197 | 1,410 | 2,100 |
| Tennessee | 0,690 | 0,750 | 0,200 | 5,450 | - | 3,950 | 5,950 |
| Virginia | - | - | - | - | - | - | - |
| West Virginia | 2,218 | 18,059 | 26,485 | 46,601 | 6,231 | 48,222 | 56,640 |
| Total East | 32,435 | 125,003 2/ | 76,332 | 155,064 | 66,311 | 199,355 | 231,990 |
| West | | | | | | | |
| Arizona | 6,447 | 3,353 | - | - | 3,333 | 3,333 | 8,000 |
| Arkansas | - | - | 0,200 | 0,200 | - | 0,200 | 0,200 |
| Colorado | 3,908 | 16,630 | 3,962 | 11,440 | 8,712 | 20,392 | 26,300 |
| Idaho | 0,100 | 0,100 | - | 0,100 | - | 0,100 | 0,200 |
| Kansas | - | 0,250 | - | - | - | - | - |
| Montana | 23,356 | 65,164 | 0,500 | - | 63,164 | 65,164 | 80,700 |
| New Mexico | 9,331 | 11,162 | - | - | 11,649 | 11,649 | 21,000 |
| North Dakota | 9,716 | 25,522 | - | - | 23,136 | 23,136 | 34,850 |
| Oklahoma | - | 0,450 | 1,500 | 1,300 | 0,650 | 2,150 | 2,150 |
| Texas | 8,400 | 35,700 | - | - | 35,700 | 35,700 | 46,100 |
| Utah | 6,265 | 25,235 | - | 17,733 | 3,500 | 23,235 | 27,500 |
| Washington | 6,023 | 2,977 | - | 1,000 | 1,977 | 2,977 | 7,000 |
| Wyoming | 39,878 | 204,122 | - | 3,000 | 200,722 | 204,122 | 226,000 |
| Total West | 87,642 | 388,246 | 6,162 | 35,415 | 358,733 | 394,408 | 487,335 |
| Total United States | 120,277 | 511,249 3/ | 82,716 | 190,459 | 603,304 | 393,963 | 716,326 |

- 1/ Excludes 1976 production from mines operating in 1976. This total includes only expected incremental production from expansion of existing mines and production from new mines 1977-1985.
- 2/ This figure includes 1976 production levels and represents total expected annual production at full operation from mines listed in Table 7.
- 3/ Includes 2.5 million tons for gasification.
- Note: All totals include some data which has not been verified by MCA. Those mines for which information has not been verified by MCA are designated in the detailed mine listing.

TABLE 2
NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

| UNITED STATES SHIPWAY, BY YEARS (Millions of tons) | | | | | | | | | | | | | |
|---|--|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---|---|
| Production at Mines Listed 1976 | | Estimated Production Increments of Mines Listed, by Years 1/ | | | | | | | | | | Expected Production at Full Operation 2/ | Total Incremental Production 1977-1985 |
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | | | |
| Western United States | | | | | | | | | | | | | |
| Mined by: Surface | | 13,789 | 8,920 | 6,082 | 3,455 | 2,845 | 2,411 | 2,278 | 2,027 | 1,860 | 58,500 | 44,311 | |
| Underground | | 18,646 | 32,592 | 24,998 | 19,868 | 15,581 | 8,874 | 6,724 | 4,967 | 3,835 | 175,690 | 155,044 | |
| Uses: | | | | | | | | | | | | | |
| Gasification | | - | - | 1,250 | 1,250 | - | - | - | - | - | 2,500 | 2,500 | |
| Steam | | 24,517 | 25,321 | 18,150 | 11,948 | 9,130 | 7,105 | 5,703 | 4,614 | 4,574 | 144,820 | 120,505 | |
| Metallurgical | | 8,118 | 18,262 | 16,191 | 11,700 | 7,296 | 4,180 | 3,299 | 2,380 | 3,119 | 84,670 | 76,552 | |
| Total East | | 52,455 | 41,512 | 31,080 | 23,525 | 16,426 | 11,285 | 9,002 | 6,994 | 7,693 | 231,990 | 199,555 | |
| Cumulative 1977-1985 | | 52,460 | 95,752 | 124,832 | 148,155 | 164,581 | 175,866 | 184,868 | 191,862 | 199,555 | | | |
| Eastern United States | | | | | | | | | | | | | |
| Mined by: Surface | | 81,957 | 29,161 | 32,572 | 42,877 | 50,522 | 55,241 | 44,158 | 44,220 | 52,757 | 27,285 | 558,793 | |
| Underground | | 5,885 | 5,690 | 6,248 | 7,022 | 6,516 | 2,978 | 2,488 | 1,459 | 0,926 | 41,500 | 55,615 | |
| Uses: | | | | | | | | | | | | | |
| Steam | | 86,004 | 34,014 | 57,349 | 48,725 | 55,802 | 57,766 | 46,304 | 46,366 | 35,875 | 28,045 | 588,246 | |
| Metallurgical | | 1,858 | 0,837 | 1,471 | 1,174 | 1,036 | 0,455 | 0,342 | 0,341 | 0,166 | 8,000 | 6,162 | |
| Total West | | 87,842 | 34,851 | 58,820 | 49,899 | 56,838 | 58,219 | 46,646 | 46,708 | 34,216 | 28,211 | 482,250 | |
| Cumulative 1977-1985 | | 34,851 | 75,671 | 125,570 | 180,408 | 238,627 | 285,275 | 331,981 | 366,197 | 394,408 | | 394,408 | |
| Total United States | | | | | | | | | | | | | |
| Mined by: Surface | | 95,746 | 45,794 | 41,492 | 48,959 | 55,977 | 58,086 | 46,569 | 44,498 | 34,784 | 29,145 | 499,050 | |
| Underground | | 24,531 | 43,297 | 38,840 | 32,020 | 26,184 | 16,559 | 11,562 | 9,212 | 6,426 | 6,759 | 190,659 | |
| Uses: | | | | | | | | | | | | | |
| Gasification | | - | - | 1,250 | 1,250 | - | - | - | - | - | 2,500 | 2,500 | |
| Steam | | 110,321 | 67,992 | 62,670 | 66,452 | 67,750 | 66,896 | 55,409 | 52,049 | 52,619 | 619,070 | 508,749 | |
| Metallurgical | | 9,956 | 19,099 | 17,662 | 12,874 | 11,161 | 7,749 | 4,522 | 5,441 | 2,721 | 92,670 | 82,714 | |
| Total United States | | 120,277 | 87,091 | 80,532 | 80,979 | 80,161 | 74,645 | 57,951 | 55,710 | 41,210 | 35,904 | 714,240 | |
| Cumulative 1977-1985 | | 87,091 | 167,423 | 248,402 | 328,565 | 405,208 | 481,159 | 516,849 | 558,059 | 595,963 | | 595,965 | |

Footnotes -- see Table 4.

TABLE 3

NEW COAL MINES AND EXTENSIONS OF EXISTING MINES, 1977-1985

Eastern United States, by Type of Mining
Estimated Production Increments, by Year 1/
(Millions of tons)

| Production at Mines Listed | | Estimated Production Increments of Mines Listed, by Years 1/ | | | | | | | | | | Expected Production at Full Operation 2/ | Total Incremental Production 1977-1985 |
|----------------------------|----------------------|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|--|
| 1976 | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | |
| Kentucky, Eastern | Surface | 0.827 | 0.462 | 0.661 | 0.250 | 0.550 | 0.550 | - | - | - | - | 4.850 | |
| | Underground | 5.260 | 4.176 | 5.155 | 2.670 | 1.504 | 0.554 | 0.353 | 0.355 | 1.900 | 18.900 | | |
| | Total | 6.087 | 4.638 | 5.816 | 2.920 | 2.054 | 0.904 | 0.353 | 0.355 | 1.900 | 23.750 | | |
| | Cumulative 1977-1985 | 4.087 | 8.925 | 12.741 | 15.661 | 17.715 | 18.619 | 18.972 | 19.525 | 21.725 | - | | |
| Alabama | Surface | 2.126 | 1.753 | - | - | 1.000 | - | - | 0.550 | 0.550 | 10.100 | 7.974 | |
| | Underground | 4.291 | 4.988 | 4.610 | 3.948 | 2.035 | 0.959 | 0.525 | 0.525 | 1.525 | 26.850 | | |
| | Total | 6.417 | 6.741 | 9.210 | 7.896 | 3.035 | 0.959 | 0.525 | 0.525 | 1.875 | 58.950 | | |
| | Cumulative 1977-1985 | 8.412 | 15.155 | 19.763 | 23.711 | 26.764 | 27.723 | 28.248 | 29.523 | 31.198 | - | | |
| Indiana | Surface | 6.387 | 1.261 | 1.163 | 0.447 | 1.050 | 1.717 | 1.534 | 1.533 | 0.666 | 17.800 | 11.415 | |
| | Underground | - | - | - | - | - | - | - | - | - | - | - | |
| | Total | 6.387 | 1.261 | 1.163 | 0.447 | 1.050 | 1.717 | 1.534 | 1.533 | 0.666 | 17.800 | | |
| | Cumulative 1977-1985 | 2.442 | 3.703 | 4.866 | 5.313 | 6.363 | 8.080 | 9.614 | 10.747 | 11.415 | - | | |
| Kentucky, Western | Surface | 1.150 | 1.929 | 0.781 | 0.281 | 0.156 | 0.056 | 0.056 | 0.056 | 0.556 | 9.550 | 8.400 | |
| | Underground | 4.200 | 5.500 | 2.551 | 1.850 | 1.526 | 1.141 | 0.400 | 0.400 | 0.234 | 16.900 | | |
| | Total | 5.350 | 7.429 | 3.332 | 2.131 | 1.682 | 1.197 | 0.456 | 0.456 | 0.790 | 26.450 | | |
| | Cumulative 1977-1985 | 8.729 | 14.158 | 17.490 | 19.721 | 21.205 | 22.400 | 22.856 | 23.512 | 24.102 | - | | |
| Kentucky, Eastern | Surface | 0.904 | 2.248 | 1.000 | - | - | - | 0.800 | - | - | 6.200 | 5.296 | |
| | Underground | 1.206 | 0.775 | 1.225 | 1.450 | 1.475 | 1.875 | 1.808 | 1.355 | 1.534 | 13.500 | | |
| | Total | 2.110 | 3.023 | 2.225 | 1.450 | 1.475 | 2.603 | 2.608 | 1.355 | 1.534 | | | |
| | Cumulative 1977-1985 | 2.554 | 5.577 | 7.802 | 9.252 | 10.727 | 12.602 | 15.210 | 16.545 | 17.677 | - | | |
| Kentucky, Total | Surface | 2.054 | 4.177 | 1.781 | 0.281 | 0.156 | 0.056 | 0.856 | 0.056 | 0.556 | 15.750 | 13.696 | |
| | Underground | 1.917 | 3.776 | 3.776 | 3.400 | 2.481 | 2.016 | 2.208 | 1.735 | 1.568 | 50.200 | | |
| | Total | 3.971 | 7.953 | 5.557 | 3.681 | 2.637 | 2.072 | 3.064 | 1.790 | 2.124 | 65.950 | | |
| | Cumulative 1977-1985 | 3.971 | 11.283 | 16.755 | 25.292 | 28.973 | 31.530 | 35.002 | 38.066 | 39.855 | 41.979 | | |

TABLE 3

NEW CUMUL MINES AND EXTENSIONS OF EXISTING MINES, 1972-1983

Eastern United States, by Type of Mining
Estimated Production Increments, by Years 1/
(Millions of tons)

| Production at Mines Listed 1976 | | Estimated Production Increments of Mines Listed, by Years 1/ | | | | | | | | | | Expected Production at Full Operation 2/ | Total Incremental Production 1977-1983 |
|--|-------------|--|--------|--------|--------|--------|--------|--------|-------|--------|--------|---|---|
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | | | |
| Eastern United States | | | | | | | | | | | | | |
| Maryland | Surface | - | - | - | 0.500 | 0.500 | - | - | - | - | - | - | - |
| | Underground | - | - | 0.500 | 0.500 | 0.500 | - | - | - | - | - | 2,000 | 2,000 |
| | Total | - | - | 0.500 | 0.500 | 0.500 | - | - | - | - | - | 2,000 | 2,000 |
| Cumulative 1977-1983 | | | | | | | | | | | | | |
| Ohio | Surface | 1,746 | 1,746 | 1,250 | 1,250 | 0.616 | - | - | 0.616 | 0.425 | - | 2,500 | 2,500 |
| | Underground | 3,386 | 6,672 | 2,167 | 0.800 | 0.616 | 0.616 | 0.616 | 0.425 | - | - | 12,200 | 8,714 |
| | Total | 3,386 | 8,418 | 3,417 | 2,050 | 1,232 | 1,232 | 1,232 | 1,041 | 11,214 | - | 14,700 | 11,214 |
| Cumulative 1977-1985 | | | | | | | | | | | | | |
| Pennsylvania | Surface | 1,803 | 0,489 | 0,049 | 0,049 | 0,049 | 0,049 | 0,049 | 0,049 | 0,049 | 0,049 | 3,000 | 1,197 |
| | Underground | 2,003 | 6,672 | 5,194 | 2,636 | 2,239 | 2,239 | 2,239 | 2,239 | 2,239 | 2,239 | 25,000 | 23,067 |
| | Total | 3,806 | 7,161 | 5,243 | 2,685 | 2,288 | 2,288 | 2,288 | 2,288 | 2,288 | 2,288 | 28,050 | 24,264 |
| Cumulative 1977-1983 | | | | | | | | | | | | | |
| Tennessee | Surface | - | - | - | - | - | - | - | - | - | - | - | - |
| | Underground | 0,490 | 1,610 | - | - | - | - | - | - | - | - | 2,100 | 1,610 |
| | Total | 0,490 | 1,610 | - | - | - | - | - | - | - | - | 2,100 | 1,610 |
| Cumulative 1977-1985 | | | | | | | | | | | | | |
| Virginia | Surface | - | - | - | - | - | - | - | - | - | - | - | - |
| | Underground | 1,266 | 0,986 | 0,616 | 0,616 | 0,616 | 0,616 | 0,616 | 0,616 | 0,616 | 0,616 | 3,950 | 3,950 |
| | Total | 1,266 | 0,986 | 0,616 | 0,616 | 0,616 | 0,616 | 0,616 | 0,616 | 0,616 | 0,616 | 3,950 | 3,950 |
| Cumulative 1977-1983 | | | | | | | | | | | | | |
| West Virginia | Surface | 0,069 | 0,977 | 1,138 | 1,138 | - | - | - | - | - | - | 4,300 | 4,231 |
| | Underground | 13,136 | 10,723 | 7,216 | 3,453 | 2,796 | 1,853 | 1,331 | 1,131 | 0,706 | 30,240 | 44,491 | 44,491 |
| | Total | 13,136 | 11,700 | 8,354 | 4,591 | 2,796 | 1,853 | 1,331 | 1,131 | 0,706 | 34,540 | 48,722 | 48,722 |
| Cumulative 1977-1983 | | | | | | | | | | | | | |
| Total Eastern United States | | | | | | | | | | | | | |
| | Surface | 13,789 | 14,633 | 8,920 | 6,082 | 3,633 | 2,843 | 2,411 | 2,278 | 2,027 | 1,860 | 34,200 | 44,311 |
| | Underground | 18,646 | 37,607 | 31,352 | 24,798 | 19,868 | 13,381 | 8,874 | 6,776 | 4,967 | 3,433 | 172,490 | 153,044 |
| | Total | 32,435 | 52,240 | 40,272 | 30,880 | 23,501 | 16,224 | 11,285 | 9,054 | 6,994 | 5,994 | 206,690 | 197,355 |
| Cumulative 1977-1983 | | | | | | | | | | | | | |

See footnotes -- end of Table 4.

TABLE 4
NEW COAL MINES AND EXPANSIONS OF EXISTING MINES, 1977-1985

| Western United States, by Type of Mining Estimated Production Increments, by Years (Millions of tons) | | | | | | | | | | | | | | Expected Production at Full Operation 2/ | Total Incremental Production 1977-1985 |
|---|----------------------|--|-------|-------|--------|--------|--------|--------|--------|--------|-------|--------|--------|---|---|
| | | Estimated Production Increments of Mines Listed, by Years 1/ | | | | | | | | | | | | | |
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | | | | | |
| Western United States | | | | | | | | | | | | | | | |
| Arizona | Surface | 3,333 | - | - | - | - | - | - | - | - | - | 8,000 | 8,000 | 3,333 | |
| | Total 3/ | 3,333 | - | - | - | - | - | - | - | - | - | 8,000 | 8,000 | 3,333 | |
| | Cumulative 1977-1985 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | - | - | - | |
| Arkansas | Underground | 0,200 | - | - | - | - | - | - | - | - | - | 0,200 | 0,200 | 0,200 | |
| | Total 4/- | 0,200 | - | - | - | - | - | - | - | - | - | 0,200 | 0,200 | 0,200 | |
| | Cumulative 1977-1985 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | - | - | - | |
| Colorado | Surface | 1,239 | 1,239 | 4,534 | 0,800 | 0,300 | 0,300 | 0,300 | - | - | - | 11,200 | 11,200 | 8,712 | |
| | Underground | 1,558 | 1,892 | 2,086 | 1,447 | 1,114 | 1,204 | 1,204 | 0,675 | 0,500 | - | 13,100 | 13,100 | 11,680 | |
| | Total | 2,797 | 3,131 | 6,620 | 2,247 | 1,414 | 1,504 | 1,504 | 0,675 | 0,500 | - | 24,300 | 24,300 | 20,392 | |
| Idaho | Underground | 0,100 | - | - | - | - | - | - | - | - | - | 0,200 | 0,200 | 0,100 | |
| | Total 4/ | 0,100 | - | - | - | - | - | - | - | - | - | 0,200 | 0,200 | 0,100 | |
| | Cumulative 1977-1985 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | - | - | - | - | |
| Kansas | Surface | 0,250 | - | - | - | - | - | - | - | - | - | 0,250 | 0,250 | 0,250 | |
| | Total 3/ | 0,250 | - | - | - | - | - | - | - | - | - | 0,250 | 0,250 | 0,250 | |
| | Cumulative 1977-1985 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | - | - | - | - | |
| Montana | Surface | 3,257 | 3,256 | 3,410 | 9,043 | 10,292 | 13,293 | 9,859 | 6,942 | 2,692 | - | 86,700 | 86,700 | 65,144 | |
| | Total 3/ | 3,257 | 3,256 | 3,410 | 9,043 | 10,292 | 13,293 | 9,859 | 6,942 | 2,692 | - | 86,700 | 86,700 | 65,144 | |
| | Cumulative 1977-1985 | 3,257 | 6,513 | 9,923 | 18,966 | 29,258 | 42,551 | 52,510 | 59,452 | 65,144 | - | - | - | - | |
| New Mexico | Surface | 2,290 | 2,290 | 2,901 | 1,701 | 0,642 | 0,642 | 0,642 | - | - | - | 21,000 | 21,000 | 11,669 | |
| | Total 3/ | 2,290 | 2,290 | 2,901 | 1,701 | 0,642 | 0,642 | 0,642 | - | - | - | 21,000 | 21,000 | 11,669 | |
| | Cumulative 1977-1985 | 2,290 | 5,080 | 7,981 | 9,682 | 10,344 | 11,006 | 11,649 | 11,649 | 11,649 | - | - | - | - | |

TABLE 4
NEW COAL MINES AND EXTENSIONS OF EXISTING MINES, 1977-1985Western United States, by Type of Mining
Estimated Production Increments, by Years
(Millions of tons)

| Western United States | Production at Mines Listed | Estimated Production Increments of Mines Listed, by Years 1/ 1977 1978 1979 1980 1981 1982 1983 1984 1985 | | | | | | | | | | Expected Production at Full Operation 2/ 1977-1985 | Total Incremental Production 1977-1985 |
|-----------------------|--|--|-------------------------------------|-------------------------------------|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--|---|
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | | | |
| North Dakota | Surface Total 2/ Cumulative | 9,714 3,469 3,469 | 9,714 3,376 6,845 | 9,714 1,727 8,572 | 9,714 1,727 10,299 | 9,714 1,727 12,026 | 9,714 1,727 13,753 | 9,714 8,325 22,078 | 9,714 1,558 23,636 | 9,714 1,500 25,136 | 9,714 34,850 34,850 | 9,714 25,136 25,136 | |
| Oklahoma | Surface Underground Total Cumulative | - 0,225 0,225 0,225 | - 0,325 0,325 0,550 | - 0,100 0,250 0,350 | - 0,417 0,417 1,317 | - 0,167 0,167 1,484 | - 0,167 0,167 1,651 | - 0,167 0,167 1,818 | - 0,166 0,166 1,984 | - 0,166 0,166 2,150 | - 0,650 1,500 2,150 | - 0,650 1,500 2,150 | |
| Texas | Surface Underground Total 2/ Cumulative | 8,400 4,414 4,414 | 8,400 4,414 8,828 | 8,400 4,114 12,942 | 8,400 6,116 19,056 | 8,400 5,216 24,270 | 8,400 3,215 27,485 | 8,400 1,715 29,200 | 8,400 3,250 32,450 | 8,400 3,250 35,700 | 8,400 44,100 44,100 | 8,400 35,700 35,700 | |
| Utah | Surface Underground Total Cumulative | - 3,319 3,319 3,319 | - 3,843 4,010 7,329 | - 3,672 3,839 11,168 | - 3,772 3,938 15,106 | - 1,000 2,017 17,123 | - 1,000 1,617 18,740 | - 1,000 1,617 20,357 | - 1,000 1,618 21,975 | - 1,000 1,260 23,235 | - 5,500 22,000 27,500 | - 5,500 17,735 23,235 | |
| Washington | Surface Underground Total Cumulative | 4,023 0,333 0,810 0,810 | 4,023 0,333 0,836 1,643 | 4,023 0,334 0,836 2,477 | 4,023 0,500 0,500 2,977 | - - - 2,977 | - - - 2,977 | - - - 2,977 | - - - 2,977 | - - - 2,977 | - 6,000 1,000 7,000 | - 1,977 1,000 2,977 | |
| Wyoming | Surface Underground Total Cumulative | 19,778 0,100 10,387 10,387 | 19,778 0,180 16,685 27,072 | 19,778 0,680 26,104 53,176 | 19,778 30,471 31,151 84,327 | 19,778 36,046 36,546 121,053 | 19,778 23,961 24,461 145,514 | 19,778 22,258 22,758 168,272 | 19,778 20,007 20,507 188,779 | 19,778 15,843 16,343 204,122 | 19,778 220,500 3,500 224,000 | 19,778 200,722 3,400 204,122 | |

TABLE 4
NEW COAL MINES AND EXTENSIONS OF EXISTING MINES, 1977-1985

Western United States, by Type of Mining
Estimated Production Increments, by Year
(Millions of tons)

| | Production at Mines Listed 1976 | Estimated Production on Increments of Mines Listed, by Years 1/ 1977 1978 1979 1980 1981 1982 1983 1984 1985 | | | | | | | Expected Production at Full Operation, 2/ 1977-1985 | Total Incremental Production 1977-1985 |
|-----------------------|--|---|--------|---------|---------|---------|---------|---------|---|---|
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | | |
| Western United States | | | | | | | | | | |
| Surface | 81,957 | 29,161 | 32,572 | 42,877 | 50,522 | 55,241 | 44,158 | 44,220 | 52,757 | 27,285 |
| Underground | 5,885 | 5,690 | 6,248 | 7,022 | 6,316 | 2,978 | 2,488 | 2,488 | 1,459 | 0,926 |
| Total | 87,842 | 34,851 | 38,820 | 49,899 | 56,838 | 58,219 | 46,646 | 46,708 | 54,216 | 28,211 |
| Cumulative 1977-1985 | | 34,851 | 73,671 | 123,570 | 180,408 | 238,627 | 285,273 | 331,981 | 386,197 | 394,406 |

1/ Estimated by MCA, methodology discussed in text of report.

2/ Includes 1976 production, if any, at mines listed.

3/ No plans for new or expansion of underground mines referenced in listing for this state.

4/ No plans for new or expansion of surface mines referenced in listing for this state.

Sources: MCA Survey; McGraw-Hill; Department of Energy; U.S. Bureau of Mines. Citations given at end of individual mine listing.

TABLE 3
NEW COAL MINES AND EXTENSIONS OF EXISTING MINES, 1977-1983

| Eastern United States, by State | | | | | | | | | | | | | Production at Mines Listed 1976 | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|--|--|--|
| Estimated Production Increments of Mines Listed, by Years 1/ | | | | | | | | | | | | | Expected Production at Full Operation 2/ | | Total Incremental Production 1977-1985 | |
| (Millions of tons) | | | | | | | | | | | | | | | | |
| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | | | | | | | |
| Alabama | | | | | | | | | | | | | | | | |
| Steam | 2,307 | 2,307 | 1,287 | 0,825 | 0,623 | 0,550 | - | - | - | 9,100 | 9,100 | 7,901 | | | | |
| Metallurgical | 1,780 | 2,531 | 2,329 | 2,093 | 1,422 | 0,324 | 0,353 | 0,353 | 1,900 | 14,650 | 14,650 | 13,234 | | | | |
| Total | 4,087 | 4,838 | 3,616 | 2,920 | 2,045 | 0,874 | 0,706 | 0,706 | 1,900 | 33,750 | 33,750 | 31,735 | | | | |
| Cumulative 1977-1985 | 4,087 | 8,923 | 12,741 | 15,661 | 17,713 | 18,619 | 18,972 | 19,325 | 21,225 | | | | | | | |
| Illinois | | | | | | | | | | | | | | | | |
| Steam | 8,412 | 6,428 | 4,297 | 3,636 | 2,741 | 0,959 | 0,523 | 1,073 | 1,873 | 35,700 | 35,700 | 29,948 | | | | |
| Metallurgical | - | 0,313 | 0,313 | 0,312 | 0,312 | - | - | - | - | 1,250 | 1,250 | 1,250 | | | | |
| Total | 8,412 | 6,741 | 4,610 | 3,948 | 3,053 | 0,959 | 0,523 | 1,073 | 1,873 | 36,950 | 36,950 | 31,198 | | | | |
| Cumulative 1977-1985 | 8,412 | 13,153 | 19,763 | 23,711 | 26,764 | 27,723 | 28,246 | 29,323 | 31,198 | | | | | | | |
| Indiana | | | | | | | | | | | | | | | | |
| Steam | 2,442 | 1,261 | 1,163 | 0,447 | 1,050 | 1,717 | 1,334 | 1,333 | 0,666 | 17,800 | 17,800 | 11,413 | | | | |
| Metallurgical | 2,442 | 1,743 | 1,763 | 0,447 | 1,050 | 1,717 | 1,334 | 1,333 | 0,666 | - | - | 11,413 | | | | |
| Total | 2,442 | 3,703 | 4,866 | 5,313 | 6,363 | 8,080 | 9,414 | 10,747 | 11,413 | | | | | | | |
| Cumulative 1977-1985 | 2,442 | 6,995 | 10,758 | 13,771 | 16,834 | 20,914 | 24,328 | 27,661 | 29,074 | | | | | | | |
| Kentucky, Eastern | | | | | | | | | | | | | | | | |
| Steam | 6,995 | 3,696 | 2,335 | 1,248 | 0,748 | 0,389 | 0,223 | 0,222 | 0,556 | 18,225 | 18,225 | 16,612 | | | | |
| Metallurgical | 1,734 | 1,733 | 0,997 | 0,983 | 0,734 | 0,608 | 0,223 | 0,224 | 0,224 | 8,225 | 8,225 | 7,480 | | | | |
| Total | 8,729 | 5,429 | 3,332 | 2,231 | 1,482 | 1,197 | 0,436 | 0,436 | 0,780 | 26,450 | 26,450 | 24,102 | | | | |
| Cumulative 1977-1985 | 8,729 | 14,126 | 17,460 | 19,721 | 21,703 | 22,400 | 22,836 | 23,312 | 24,102 | | | | | | | |
| Kentucky, Western | | | | | | | | | | | | | | | | |
| Steam | 2,354 | 3,023 | 2,223 | 1,450 | 1,475 | 1,875 | 2,608 | 1,333 | 1,334 | 19,500 | 19,500 | 17,877 | | | | |
| Metallurgical | 2,354 | 3,023 | 2,223 | 1,450 | 1,475 | 1,875 | 2,608 | 1,333 | 1,334 | - | - | 17,877 | | | | |
| Total | 2,354 | 6,046 | 4,446 | 2,900 | 2,950 | 3,750 | 5,216 | 2,666 | 2,668 | | | | | | | |
| Cumulative 1977-1985 | 2,354 | 8,399 | 12,845 | 15,745 | 18,695 | 22,445 | 27,661 | 29,074 | 30,408 | | | | | | | |
| Kentucky, Total | | | | | | | | | | | | | | | | |
| Steam | 9,549 | 6,917 | 4,560 | 2,696 | 2,223 | 2,444 | 2,831 | 1,533 | 1,590 | 57,225 | 57,225 | 54,489 | | | | |
| Metallurgical | 1,734 | 1,733 | 0,997 | 0,983 | 0,734 | 0,608 | 0,223 | 0,223 | 0,223 | 8,225 | 8,225 | 7,480 | | | | |
| Total | 11,283 | 8,650 | 5,557 | 3,679 | 2,957 | 3,052 | 3,054 | 1,756 | 2,113 | 65,450 | 65,450 | 61,969 | | | | |
| Cumulative 1977-1985 | 11,283 | 19,735 | 25,292 | 28,973 | 31,930 | 35,002 | 38,066 | 39,855 | 41,979 | | | | | | | |

TABLE 5
NEW COAL MINES AND EXPANSIONS OF EXISTING MINES, 1977-1985

| Eastern United States, by Use | | | | | | | | | | | | |
|---|-------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|---|------------------|
| Estimated Production Increments, by Year | | | | | | | | | | | | |
| (Millions of tons) | | | | | | | | | | | | |
| Estimated Production Increments of Mines Listed, by Year 1/ | | | | | | | | | | | | |
| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 2/ | |
| Production at Mines Listed | 1976 | | | | | | | | | | | 1977-1985 |
| Eastern United States | | | | | | | | | | | Total | |
| Maryland | | | | | | | | | | | Incremental Production at Full Operation | |
| Steelm | - | - | 0.500 | 0.500 | 0.500 | - | - | - | - | - | 2,000 | |
| Metallurgical | - | 0.500 | 0.500 | 0.500 | 0.500 | - | - | - | - | - | 2,000 | |
| Total | - | 0.500 | 0.500 | 0.500 | 0.500 | - | - | - | - | - | 2,000 | |
| Cumulative 1977-1985 | - | 0.500 | 1,000 | 1,500 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | | |
| Ohio | | | | | | | | | | | | |
| Gasification | - | - | 1,250 | 1,250 | - | 0,616 | 0,616 | 0,425 | - | - | 2,500 | |
| Steelm | 1,746 | 1,748 | 2,147 | 0,800 | 0,616 | 0,616 | 0,616 | 0,425 | - | - | 12,300 | |
| Metallurgical | 1,746 | 1,748 | 3,397 | 3,050 | 0,816 | 0,816 | 0,816 | 0,425 | - | - | 14,800 | |
| Total | 1,746 | 3,496 | 6,891 | 8,941 | 9,557 | 10,172 | 10,789 | 11,214 | - | - | | |
| Cumulative 1977-1985 | 1,746 | 3,496 | 6,891 | 8,941 | 9,557 | 10,172 | 10,789 | 11,214 | - | - | | |
| Pennsylvania | | | | | | | | | | | | |
| Steelm | 3,827 | 3,425 | 1,410 | 1,346 | 1,346 | 0,660 | 0,259 | 0,088 | - | - | 14,700 | |
| Metallurgical | 3,534 | 1,854 | 0,982 | 1,198 | 0,998 | 0,998 | 0,996 | 0,780 | - | - | 15,500 | |
| Total | 7,361 | 5,279 | 2,392 | 2,544 | 2,344 | 1,658 | 1,255 | 0,868 | - | - | 28,050 | |
| Cumulative 1977-1985 | 7,361 | 12,644 | 15,169 | 17,497 | 20,041 | 21,699 | 22,954 | 25,822 | 24,244 | - | | |
| Tennessee | | | | | | | | | | | | |
| Steelm | 0,800 | - | - | - | - | - | - | - | - | - | 0,800 | |
| Metallurgical | 0,810 | - | - | - | - | - | - | - | - | - | 1,500 | |
| Total | 1,610 | - | - | - | - | - | - | - | - | - | 2,300 | |
| Cumulative 1977-1985 | 1,610 | 1,610 | 1,610 | 1,610 | 1,610 | 1,610 | 1,610 | 1,610 | 1,610 | 1,610 | | |
| Virginia | | | | | | | | | | | | |
| Steelm | 0,575 | 0,175 | - | 0,856 | 0,856 | 0,506 | 0,506 | - | - | - | 0,750 | |
| Metallurgical | 0,811 | 0,811 | 0,256 | 0,256 | 0,256 | 0,506 | 0,506 | - | - | - | 2,200 | |
| Total | 1,386 | 0,986 | 0,856 | 1,112 | 1,112 | 1,012 | 1,012 | - | - | - | 2,950 | |
| Cumulative 1977-1985 | 1,386 | 2,372 | 3,228 | 4,004 | 4,940 | 5,446 | 5,950 | 5,950 | 5,950 | 5,950 | | |

TABLE 5
NEW COAL MINES AND EXPANSIONS OF EXISTING MINES, 1977-1983

| Eastern United States, by Use Estimated Production Increments, by Year (Millions of tons) | | | | | | | | | | | | | |
|---|----------------------|--|--------|---------|---------|---------|---------|---------|---------|---------|---------|---|---|
| Production at Mines Listed 1976 | | Estimated Production Increments of Mines Listed, by Years 1/ | | | | | | | | | | Expected Production at Full Operation 2/ | Total Incremental Production 1977-1985 |
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | | | |
| Eastern United States | | | | | | | | | | | | | |
| West Virginia | Steam | 4,520 | 5,258 | 5,266 | 2,196 | 0,529 | 0,139 | 0,138 | 0,136 | 0,055 | 15,945 | 14,059 | |
| | Metallurgical | 9,793 | 8,445 | 2,190 | 4,397 | 2,267 | 1,714 | 1,213 | 1,015 | 0,651 | 58,695 | 24,683 | |
| | Total | 14,313 | 13,703 | 7,456 | 6,593 | 2,796 | 1,853 | 1,351 | 1,151 | 0,706 | 74,640 | 38,742 | |
| | Cumulative 1977-1985 | 14,113 | 25,816 | 34,272 | 40,865 | 45,641 | 45,514 | 46,865 | 48,016 | 48,722 | | | |
| Eastern United States | | | | | | | | | | | | | |
| California | Steam | 32,978 | 25,521 | 18,150 | 11,948 | 9,130 | 7,103 | 3,703 | 4,614 | 4,574 | 2,500 | 2,500 | |
| | Metallurgical | 18,262 | 16,191 | 11,700 | 10,123 | 7,296 | 4,180 | 2,299 | 2,390 | 2,119 | 144,820 | 120,505 | |
| | Total | 51,240 | 41,712 | 29,850 | 22,071 | 16,426 | 11,283 | 5,999 | 7,004 | 6,693 | 159,320 | 124,010 | |
| | Cumulative 1977-1985 | 52,240 | 93,752 | 124,852 | 148,155 | 164,581 | 175,866 | 184,868 | 191,862 | 199,555 | | | |

Source and footnotes -- see end of Table 6.

TABLE 6
NEW COAL MINES AND EXTENSIONS OF EXISTING MINES, 1977-1985

| Western United States, by Year | | | | | | | | | | | | | |
|--|----------------------|--|-------|--------|--------|--------|--------|--------|--------|--------|--------|--|--|
| Estimated Production Increments of Mines Listed, by Years 1/ (Millions of tons) | | | | | | | | | | | | | |
| Production at Mines Listed 1976 | | Estimated Production Increments of Mines Listed, by Years 1/ (Millions of tons) | | | | | | | | | | Expected Production at Full Operation 2/ 1977-1985 | |
| | | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | | | |
| Western United States | Steam | 3,333 | - | - | - | - | - | - | - | - | 8,000 | 8,000 | |
| | Total 3/ | 3,333 | - | - | - | - | - | - | - | - | 8,000 | 8,000 | |
| | Cumulative 1977-1985 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | 3,333 | - | - | |
| Arizona | Metallurgical | 0,200 | - | - | - | - | - | - | - | - | 0,200 | 0,200 | |
| | Total 4/ | 0,200 | - | - | - | - | - | - | - | - | 0,200 | 0,200 | |
| | Cumulative 1977-1989 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | 0,200 | - | - | |
| Colorado | Steam | 2,160 | 2,160 | 9,696 | 1,628 | 1,128 | 1,329 | 1,329 | 0,500 | 0,500 | 19,300 | 19,300 | |
| | Metallurgical | 0,637 | 0,971 | 0,924 | 0,619 | 0,286 | 0,179 | 0,175 | 0,175 | 0,175 | 5,000 | 5,000 | |
| | Total | 2,797 | 3,131 | 10,620 | 2,247 | 1,414 | 1,504 | 1,504 | 0,675 | 0,675 | 24,300 | 24,300 | |
| Idaho | Metallurgical | 2,797 | 5,298 | 12,548 | 14,799 | 16,209 | 17,713 | 19,217 | 19,892 | 20,392 | - | - | |
| | Steam | 0,100 | - | - | - | - | - | - | - | - | 0,200 | 0,200 | |
| | Total 3/ | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,100 | 0,200 | 0,200 | |
| Kansas | Steam | 0,250 | - | - | - | - | - | - | - | - | 0,250 | 0,250 | |
| | Total 3/ | 0,250 | - | - | - | - | - | - | - | - | 0,250 | 0,250 | |
| | Cumulative 1977-1989 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | 0,250 | - | - | |
| Montana | Steam | 2,237 | 2,256 | 3,410 | 9,043 | 10,292 | 13,293 | 9,919 | 6,942 | 5,692 | 88,700 | 88,700 | |
| | Total 3/ | 2,237 | 2,256 | 3,410 | 9,043 | 10,292 | 13,293 | 9,919 | 6,942 | 5,692 | 88,700 | 88,700 | |
| | Cumulative 1977-1985 | 3,257 | 6,513 | 9,923 | 18,966 | 29,258 | 42,551 | 52,510 | 59,452 | 65,144 | - | - | |
| New Mexico | Steam | 2,290 | 2,290 | 2,901 | 1,701 | 0,662 | 0,662 | 0,663 | - | - | 19,700 | 19,700 | |
| | Metallurgical | 0,800 | 0,800 | 2,901 | 1,701 | 0,662 | 0,662 | 0,663 | - | - | 1,300 | 1,300 | |
| | Total | 2,290 | 2,790 | 2,901 | 1,701 | 0,662 | 0,662 | 0,663 | - | - | 21,000 | 21,000 | |
| New Mexico | Metallurgical | 2,290 | 9,080 | 7,981 | 9,682 | 10,344 | 11,006 | 11,669 | 11,669 | 11,669 | - | - | |
| | Total | 2,290 | 9,080 | 7,981 | 9,682 | 10,344 | 11,006 | 11,669 | 11,669 | 11,669 | - | - | |
| | Cumulative 1977-1989 | 2,290 | 9,080 | 7,981 | 9,682 | 10,344 | 11,006 | 11,669 | 11,669 | 11,669 | - | - | |

TABLE 6

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES, 1977-1985

| Western United States, by Use | | | | | | | | | | | |
|--|--------|--------|---------|---------|---------|---------|---------|---------|---------|--|--|
| Estimated Production Increments, by Years | | | | | | | | | | | |
| (Millions of tons) | | | | | | | | | | | |
| Estimated Production Increments of Mines Listed, by Years 1/ | | | | | | | | | | | |
| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | Expected Production at Full Operation 2/ | Total Incremental Production 1977-1985 |
| Western United States | | | | | | | | | | | |
| North Dakota | 3,469 | 3,376 | 1,727 | 1,727 | 1,727 | 1,727 | 8,325 | 1,558 | 1,500 | 34,850 | 23,136 |
| Total 3/ | 3,469 | 3,376 | 1,727 | 1,727 | 1,727 | 1,727 | 8,325 | 1,558 | 1,500 | 34,850 | 23,136 |
| Cumulative 1977-1985 | 5,469 | 6,845 | 8,572 | 10,299 | 12,026 | 13,753 | 22,078 | 23,636 | 23,136 | | |
| Oklahoma | | | | | | | | | | | |
| Steam | 0.225 | 0.323 | 0.100 | - | 0.167 | - | - | - | - | 0.650 | 0.650 |
| Metallurgical | - | - | 0.250 | 0.417 | 0.167 | 0.167 | 0.167 | 0.166 | 0.166 | 1,500 | 1,500 |
| Total | 0.225 | 0.323 | 0.350 | 0.417 | 0.167 | 0.167 | 0.167 | 0.166 | 0.166 | 2,150 | 2,150 |
| Cumulative 1977-1985 | 0.225 | 0.550 | 0.900 | 1.317 | 1.484 | 1.651 | 1.818 | 1.984 | 2.150 | | |
| Texas | | | | | | | | | | | |
| Steam | 4,414 | 4,414 | 4,114 | 6,114 | 5,214 | 3,215 | 1,215 | 3,250 | 3,250 | 44,100 | 33,700 |
| Total 3/ | 4,414 | 4,414 | 4,114 | 6,114 | 5,214 | 3,215 | 1,215 | 3,250 | 3,250 | 44,100 | 33,700 |
| Cumulative 1977-1985 | 4,414 | 8,828 | 12,942 | 19,056 | 24,270 | 27,483 | 29,200 | 32,450 | 35,700 | | |
| Utah | | | | | | | | | | | |
| Steam | 3,319 | 4,010 | 3,839 | 3,938 | 2,017 | 1,617 | 1,617 | 1,618 | 1,360 | 27,500 | 23,235 |
| Total 3/ | 3,319 | 4,010 | 3,839 | 3,938 | 2,017 | 1,617 | 1,617 | 1,618 | 1,360 | 27,500 | 23,235 |
| Cumulative 1977-1985 | 3,319 | 7,329 | 11,168 | 15,106 | 17,123 | 18,740 | 20,357 | 21,973 | 23,235 | | |
| Washington | | | | | | | | | | | |
| Steam | 0.810 | 0.833 | 0.834 | 0.500 | - | - | - | - | - | 7,000 | 2,977 |
| Total 3/ | 0.810 | 0.833 | 0.834 | 0.500 | - | - | - | - | - | 7,000 | 2,977 |
| Cumulative 1977-1985 | 0.810 | 1.643 | 2.477 | 2.977 | 2.977 | 2.977 | 2.977 | 2.977 | 2.977 | | |
| Wyoming | | | | | | | | | | | |
| Steam | 10,387 | 16,685 | 26,104 | 31,151 | 36,726 | 24,461 | 22,758 | 20,007 | 13,843 | 224,000 | 204,122 |
| Total 3/ | 10,387 | 16,685 | 26,104 | 31,151 | 36,726 | 24,461 | 22,758 | 20,007 | 13,843 | 224,000 | 204,122 |
| Cumulative 1977-1985 | 10,387 | 27,072 | 53,176 | 84,327 | 121,053 | 145,514 | 168,272 | 188,279 | 204,122 | | |
| Western United States | | | | | | | | | | | |
| Steam | 34,014 | 37,349 | 48,725 | 55,802 | 37,766 | 46,304 | 46,366 | 33,873 | 28,045 | 474,250 | 388,246 |
| Metallurgical | 0.837 | 1,471 | 1,174 | 1,036 | 0,433 | 0,342 | 0,342 | 0,341 | 0,166 | 8,000 | 6,162 |
| Total | 34,851 | 38,820 | 49,899 | 56,838 | 38,219 | 46,646 | 46,708 | 34,216 | 28,211 | 482,250 | 394,408 |
| Cumulative 1977-1985 | 34,851 | 73,671 | 123,570 | 180,408 | 238,627 | 285,273 | 331,981 | 366,197 | 394,408 | | |

1/ Estimated by MCA, methodology discussed in text of report.

2/ Includes 1976 production, if any, at mines listed.

3/ No plans for new or expansion of mines for metallurgical use referenced in listing for this state.

4/ No plans for new or expansion of mines for steam use referenced in listing for this state.

Sources: MCA Survey; McGraw-Hill; Department of Energy; U.S. Bureau of Mines. Citations given at end of individual mine listing.

Table 7.

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (Million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation or in 1985 (Million tons - includes 1976 production if any) |
|--|------------------|----------------------|------|--------|---|---------------------------------|---|---|
| ALABAMA | | | | | | | | |
| Alabama By-Products | Mary Lee 2 | Walker | U | SC | 0.266 | 1976 | 1978 | 0.75 |
| | Knob 1 | Jefferson | S | M | 0.160 | MA | 1977 | 0.25 |
| | Brilliant | Winston | S | SC | 0.540 | 1/ | 1979 | 1.00 |
| | Arkadelphia | Gulfham | S | M | 0.625 | 1/ | 1977 | 0.70 |
| | Drummond Company | Walker | S | SC | MA | MA | 1982 | 1.50 |
| | " | Jefferson | S | M | 0.225 | 1/ | 1979 | 0.80 |
| | Viet Top | Walker | S | SC | - | 1981 | 1982 | 0.60 |
| | Hill Creek | Tuscaloosa | U | M | - | 1977 | 1980 | 2.00 |
| | Tuscaloosa | Jefferson | U | M & SC | - | 1977 | 1981 | 0.75 |
| | Beale | Jefferson | U | M & SC | 0.293 ** | 1/ | 1979 | 1.75 |
| Federal Resources | Blue Creek 3 | Tuscaloosa | U | SC | - | 1977 | 1980 | 2.00 |
| | Blue Creek 4 | Tuscaloosa | U | SC | - | 1978 | 1981 | 2.00 |
| | Blue Creek 5 | Tuscaloosa | U | M | - | 1978 | 1981 | 2.00 |
| | Blue Creek 7 | Tuscaloosa | U | M | - | 1976 | 1977 | 0.25 |
| | Nolo | Jefferson | U | M | MA | - | 2/ | 0.40 |
| | Blue Creek | Tuscaloosa | U | M | - | - | 3/ | 0.50 |
| | North Midge | Jefferson | U | M | - | - | 3/ | 1.00 |
| | Mary Lee | Jefferson | U | SC | 0.426 ** | 1/ | 1978 | 2.00 |
| | North River 1 | Fayette | U | SC | - | 1978 | 1980 | 0.50 |
| | Curlew | Shelby | U | M | 0.170 | 1/ | 1984 | 3.00 |
| Oak Grove | | | | | | | | 23.75 |
| Total Alabama 2/ | | | | | | | | |
| ILLINOIS | | | | | | | | |
| Amex, Inc. | Crab Orchard | Williamson | S | SC | - | 1981 | 1981 | 1.00 |
| | New Dolce | Sellins | S | SC | 0.731 | 1/ | 1978 | 2.40 |
| | Urbah | Urbah | U | SC | 1.823 | 1/ | 1979 | 3.60 |
| | Bonsport | Pulmon | U | SC | 0.744 | 1/ | 1978 | 1.10 |
| | Unnamed | MA | U | SC | - | 1982 | 1985 | 2.10 |
| | Unnamed | MA | S | SC | - | 1984 | 1985 | 1.10 |
| | Burning Star 5 | Jackson | S | SC | 0.434 | 1976 | 1977 | 2.80 |
| Consolidation Coal Co. Freeman United | Crown 2 | Mcoupin | U | SC | 0.477 | 1976 | 1978 | 2.10 |

Table 7 (cont.) NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (Million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation or in 1985 (Million tons - includes 1976 production if any) |
|---------------------------|------------------|------------------------|------|--------|--|---------------------------|--|--|
| ILLINOIS (cont'd.) | | | | | | | | |
| Freeman United | Orient 5 | Franklin | U | St | - | - | 4/ | 0.80 |
| Inland Steel | Inland 2 | Hamilton | U | M & St | - | 1978 | 1981 | 2.50 |
| Mapeta | Mapeta | Fulton & Knox | S | St | 0.217 | 1976 | 1978 | 0.70 |
| Midland Coal Co. | Montecasey 2 | Clinton | U | St | - | 1977 | 1980 | 3.40 |
| Montecasey Coal Co. | No. 25 | Franklin | U | St | - | 1977 | 1980 | 2.25 |
| " " | No. 27 | Franklin | U | St | - | 1978 | 1981 | 2.25 |
| " " | Baldwin 2 | Baudolf, St. Clair and | U | St | - | 1978 | 1980 | 1.30 |
| Peabody Coal Co. | Baldwin 4 | Washington | U | St | - | 1979 | 1981 | 1.30 |
| " " | Baldwin 5 | St. Clair | U | St | NA | 1980 | 1982 | 1.00 |
| " " | River King Pit 3 | Douglas | S | St | 1.326 | 1/ | 1978 | 1.00 |
| Ziegler Coal Co. | No. 5 | Randolph | U | St | - | 1/ | 1977 | 2.25 |
| " " | No. 11 | | U | St | - | 1976 | 1979 | 1.50 |
| Total Illinois | | | | | 5.758 | | | 36.95 |
| INDIANA | | | | | | | | |
| Amax, Inc. | Ayrshire | Warrick | S | St | 2.712 | 1/ | 1980 | 4.50 |
| " " | Chinook | Clay | S | St | 1.058 | 1/ | 1979 | 2.40 |
| " " | Wilson | Knox | S | St | - | 1981 | 1982 | 1.10 |
| " " | Unnamed | NA | S | St | - | 1981 | 1982 | 1.00 |
| Old Ben Coal Co. | Old Ben 2 | Pike | S | St | 1.719 | 1/ | 1977 | 2.90 |
| Peabody Coal Co. | Chiffarain | Sullivan & Vigo | S | St | - | 1982 | 1984 | 2.00 |
| " " | Lewis | Clay & Vigo | S | St | - | 1977 | 1978 | 0.20 |
| " " | Pendleton 5/ | Sullivan | S | St | - | 1983 | 1985 | 2.00 |
| " " | Lauthorne West | Greene | S | St | 0.898 | 1/ | 1979 | 1.70 |
| Total Indiana | | | | | 6.387 | | | 17.80 |
| KENTUCKY, EASTERN | | | | | | | | |
| Addington Bros. | Unnamed | Johnson | S | St | NA | - | NA | 0.50 |
| Ball Co. Coal Corp. | Ball | Ball | U | St | - | 1977 | 1977 | 0.30 |
| Canada Coal Corp. | No. 2 | Pike | U | M & St | 0.550 | 1/ | 1978 | 1.00 |
| Chapparral Coal Corp. | No. 2 | Pike | U | St | 0.012 ** | 1976 | 1979 | 0.30 |
| " " | No. 2A | Pike | U | St | - | 1977 | 1978 | 0.15 |
| " " | No. 3 | Pike | U | St | - | 1977 | 1977 | 0.40 |
| " " | No. 3A | Pike | U | St | - | 1977 | 1978 | 0.20 |

Table 7 (Contd.) NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1982

| Company | Mine | Location (Country) | Type | Use | 1976 Production (if in operation) (million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation (million tons - includes 1976 production if any) |
|-----------------------------|----------------------------|-----------------------|------|--------|---|---------------------------------|---|---|
| Kentucky, Eastern (cont'd.) | | | | | | | | |
| Eastover Mining | Brookside 4 | Marion | U | SC | - | 1982 | 1984 | 0.50 |
| " | Sell 7 | Bell | U | SC | - | 1978 | 1982 | 1.00 |
| Pelton Coal Co. | South York | Breathitt | S | SC | NA | 1/ | 1978 | 1.50 |
| " | Spicewood | Breathitt | S | SC | NA | 1977 | 1978 | 0.80 |
| " | Fourcree | Perry & Leslie | S | SC | NA | 1976 | 1977 | 0.50 |
| " | Harbortly | Perry & Knott | S | SC | NA | 1976 | 1977 | 0.75 |
| " | Peterson 4 | Perry & Leslie | U | SC | 0.052 | 1976 | 1977 | 0.25 |
| " | Kentucky River 1 | Perry & Knott | U | SC | - | 1977 | 1980 | 1.00 |
| " | Hedrix 1 | Breathitt | U | SC | - | 1977 | 1981 | 1.00 |
| " | Big Creek 1 & 2 | Pike | U | M & SC | 0.110 | 1976 | 1979 | 1.20 |
| " | Unnamed | Breathitt | S | SC | - | 1978 | 1979 | 1.00 |
| Island Creek Coal Co. | No. 2 | NA | U | M & SC | - | 1982 | 1985 | 1.00 |
| Kash Services | Postkil | Marion | U | SC | 0.049 | 1976 | 1979 | 1.50 |
| Landmark Mining | Hartkil | Marion | S | SC | 1.150 | 1/ | 1977 | 3.00 |
| NAFCO | NA | Pike | U | M | - | 1977 | 1978 | 1.50 |
| A. T. Hussy | Scotte Branch | Pike | U | M & SC | - | 1977 | 1981 | 1.25 |
| Pickens Nuclear | Moines | Pike | U | M & SC | - | 1980 | 1982 | 1.00 |
| " | Leslie | Pike | U | M & SC | - | 1977 | 1980 | 1.00 |
| " | Caudill's Branch | Letcher | U | M | - | 1977 | 1982 | 1.25 |
| Southwest Coal | 406 Mine | Letcher | U | SC | - | 1977 | 1978 | 0.10 |
| " | Floyd Co. Devl. Corp. | Floyd | U | M & SC | - | 1979 | 1980 | 0.50 |
| Turner Bilkhorn | Lynch No. 3 | Marion | U | M | 0.405 | 1/ | 1985 | 2.00 |
| U.S. Steel | Total Kentucky, Eastern 2/ | | | | 2.348 | | | 26.45 |
| KENTUCKY, WESTERN | | | | | | | | |
| Peabody Coal Co. | Beverview/Buckport | Ohio | S | SC | 0.904 | 1/ | 1978 | 1.60 |
| " | Alston Surface | Ohio | S | SC | - | 1977 | 1978 | 1.80 |
| " | Alston IV | McLean-Hubenberg | U | SC | - | 1979 | 1982 | 2.40 |
| " | Alston IX | Ohio | U | SC | - | 1980 | 1983 | 1.90 |
| " | Camp #11 | Union-Hubster | U | SC | - | 1977 | 1980 | 1.50 |
| " | Craham Hill | Hubenberg | U | SC | - | 1977 | 1978 | 0.30 |
| " | Henderson S | Henderson | U | SC | - | 1982 | 1985 | 1.60 |
| " | Henderson C | Henderson | U | SC | - | 1983 | 1985 | 1.60 |
| " | Hartwick | Hubenberg-Ohio | U | SC | - | 1981 | 1985 | 2.00 |

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

Table 7 (contd.)

| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (Million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected |
|------------------------------------|-----------------------|----------------------|------|-----|---|---------------------------------|---|---|
| | | | | | | | | Annual Production at Full Operation or in 1985 (Million tons - includes 1976 production if any) |
| Kentucky, Western (cont'd.) | | | | | | | | |
| Peabody Coal Co. | Hootman #14 | Muhlenberg | S | St | - | 1978 | 1979 | 1.00 |
| | Providence | Webster | S | St | - | 1983 | 1983 | 0.80 |
| | Blanchard Slope | Muhlenberg | U | St | 0.719 | 1976 | 1977 | 1.50 |
| | Mortonville | Hopkins | S | St | - | 1978 | 1979 | 1.00 |
| | Drake 5 | Muhlenberg | U | St | - | 1978 | 1979 | 0.50 |
| Total Kentucky, Western | | | | | 1.623 | | | 19.50 |
| MARYLAND | | | | | | | | |
| MATCO | Mattiki | Garrett | U | M | - | 1978 | 1981 | 2.00 |
| Total Maryland | | | | | - | | | 2.00 |
| OHIO | | | | | | | | |
| Consolidation Coal Co. | Unnamed | Mobile | S | G | - | 1979 | 1980 | 2.50 |
| | Well | Harrison | U | St | - | 1979 | 1979 | 0.40 |
| | Island Creek Coal Co. | Harrison | U | St | 0.264 | 1/ | 1983 | 1.60 |
| | North American Coal | Monroe | U | St | 1.162 | 1/ | 1980 | 2.60 |
| | Producers 4 | Monroe | U | St | - | 1981 | 1984 | 1.70 |
| | Producers 5/ | Morgan & Perry | U | St | - | 1/ | 1979 | 2.00 |
| | Peabody Coal Co. | Heige 1 | U | St | 0.237 | 1/ | 1979 | 2.00 |
| | Southern Ohio Coal | Heige 2 | U | St | 1.266 | 1/ | 1979 | 2.00 |
| | " | Heige 3 | U | St | 0.437 | 1/ | 1979 | 1.00 |
| | " | Wacoona 3 | U | St | - | 1977 | 1980 | 1.00 |
| Youghiogheny & Ohio | | | | | 3.586 | | | 14.80 |
| Total Ohio | | | | | 3.586 | | | |
| PENNSYLVANIA | | | | | | | | |
| Barnes & Tucker | Treanna | Ladison | U | M | - | 1981 | 1983 | 0.65 |
| | Yellow Creek | Cambria | U | St | - | 1980 | 1982 | 1.20 |
| | Various | Clearfield | S | St | 1.603 | 1/ | 1985 | 2.60 |
| | No. 91 | Butler | U | M | 0.251 | 1/ | 1977 | 0.50 |

Table 7 (contd.)

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (Million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation or in 1985 (Million tons - includes 1976 production if any) |
|-------------------------------|--------------------|----------------------------|------|-----|---|---------------------------------|---|---|
| Pennsylvania (cont'd.) | | | | | | | | |
| Bethlehem Mine | No. 38E | Cambria | U | M | 0.273 | 1976 | 1978 | 0.40 |
| " | No. 78 | Somerset | U | H | 0.242 | 1/ | 1978 | 0.40 |
| Contabury Coal Co. | Armstrong | Olean | U | Sc | NA | 1976 | 1978 | 0.40 |
| Consolidation Coal Co. | Laural | Somerset | U | M | 0.295 | 1/ | 1977 | 0.80 |
| " | Westfield 2 | NA | U | Sc | - | 1977 | 1983 | 1.20 |
| Bearald Mine | No. 1 | Greene | U | M | - | 1977 | 1979 | 2.00 |
| " | No. 2 | Greene | U | M | - | 1980 | 1985 | 2.00 |
| O.M.W. Coal Co. | Croft 3 & 4 | Somerset | U | Sc | 0.040 ** | 1976 | 1978 | 1.20 |
| Bellevue Coal Co. | Lucerne 8 & 9 | Indiana | U | Sc | 0.325 | 1976 | 1978 | 1.20 |
| J & L Steel Co. | Henderson | Greene | U | H | NA | 1976 | 1978 | 1.00 |
| North Somerset Mining | Unnamed | Somerset | U | Sc | NA | 1976 | 1978 | 0.40 |
| Old Mine Manor | No. 4 & 8 | Indiana | U | Sc | NA | 1976 | 1978 | 0.40 |
| Ruchstack & Pittsburgh | Urling 1 | Armstrong | U | Sc | - | 1977 | 1979 | 1.40 |
| " | Urling 2 | Armstrong | U | Sc | 0.005 | 1976 | 1978 | 0.40 |
| " | Urling 3 | Armstrong | U | Sc | 0.078 | 1976 | 1981 | 0.50 |
| " | Baile 4 | Armstrong | U | Sc | - | 1977 | 1978 | 0.20 |
| " | Leallo 9 | Indiana | S | Sc | - | 1977 | 1977 | 0.40 |
| " | No. 7 | Gumarat | U | M | NA | 1976 | 1977 | 0.30 |
| Solar Fuel Co. | No. 9 | Somerset | U | M | 0.076 | 1976 | 1977 | 0.20 |
| " | No. 10 | Somerset | U | M | - | 1977 | 1981 | 0.50 |
| " | No. 11 | Somerset | U | M | - | 1979 | 1981 | 0.30 |
| " | No. 12 | Somerset | U | M | NA | 1976 | 1977 | 0.30 |
| U.S. Steel Corp. | Dilworth | Greene | U | M | 0.418 | 1/ | 1984 | 4.00 |
| " | Cumbarland | Greene | U | Sc | - | 1977 | 1981 | 3.00 |
| Total Pennsylvania 2/ | | | | | 3.806 | | | 28.05 |
| TENNESSEE | | | | | | | | |
| Grundy Mining | No. 21, 24, 28, 30 | Marion (No. 21) | U | M | 0.490 ** | 1/ | 1977 | 1.30 |
| Placatan Mining | Placatan 2 & 3 | and Sequatchie Campbell | U | Sc | - | 1977 | 1977 | 0.80 |
| Total Tennessee 2/ | | | | | 0.490 | | | 2.10 |

1 24 1

Table 7 (contd.)

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation or in 1985 (million tons - includes 1976 production if any) |
|--------------------------|-------------------|----------------------|------|--------|---|---------------------------------|---|---|
| VIRGINIA | | | | | | | | |
| Consolidation Coal Co. | Anacosta | WA | U | M | - | 1977 | 1981 | 0.65 |
| Eastover Mining | Va. No. 2 | Wise | U | SC | NA | 1976 | 1977 | 0.40 |
| Inland Creek Coal | Va. Pocahontas 5 | Buchanan | U | M | - | 1977 | 1981 | 1.10 |
| Pittsman Company | Va. Pocahontas 6 | Buchanan | U | M | - | 1977 | 1983 | 1.10 |
| | McClure 1 | Dickinson | U | M | - | 1977 | 1983 | 1.00 |
| | McClure 2 | Dickinson | U | M | - | 1977 | 1983 | 1.00 |
| Westmoreland Coal | Wilton | Wise | U | M & SC | NA | 1976 | 1978 | 0.70 |
| Total Virginia | | | | | NA | | | 5.95 |
| WEST VIRGINIA | | | | | | | | |
| Affinity Mining Co. | Keystone 5 | Raleigh | U | M | 0.275 | 1/ | 1980 | 0.70 |
| Arco Steel | Frontier 6 & 9 | Boone | U | M | - | 1978 | 1979 | 1.00 |
| | Wahonda 10A, 10B | Raleigh | U | M | 0.122 | 1976 | 1979 | 1.00 |
| Beckley Coal Mining Co. | Beckley | Raleigh | U | M & SC | 0.740 | 1/ | 1977 | 1.50 |
| Bethlehem Mines | Twenty Mile Creek | Raleigh | U | M | - | 1982 | 1985 | 1.10 |
| | Jerry Fork | Nicholas | U | M | 0.040 | 1976 | 1977 | 0.50 |
| | No. 131 | Boone | U | M | 0.349 | 1976 | 1978 | 1.25 |
| Consuelton Industries | No. 125 | Boone | U | M | 0.078 | 1/ | 1977 | 0.10 |
| | Indio Creek | Boone | U | M | - | 1979 | 1983 | 1.00 |
| | Wenand | Boone | U | SC | - | 1979 | 1981 | 0.60 |
| * Carbon Fuel | Yanahva | Boone | U | SC | NA | 1976 | 1977 | 0.90 |
| Cedar Coal Co. | Grace 2 | Boone | U | SC | 0.103 | 1/ | 1978 | 0.29 |
| | Coalburg #1 | Boone | U | SC | - | 1977 | 1978 | 0.22 |
| | Twin Pools | Boone | U | SC | - | 1977 | 1985 | 0.33 |
| | Big John | Boone | U | SC | - | 1977 | 1985 | 0.16 |
| | Coal Fork 1 & 2 | Boone | U | SC | 0.094 | 1976 | 1978 | 0.25 |
| Central Appalachia Coal | Five Block | Boone | U | SC | 0.028 | 1976 | 1978 | 0.30 |
| * Chesote System | Unnamed | Boone | U | SC | - | 1977 | 1980 | 3.00 |
| | New River Mine | Boone | U | M | - | 1977 | 1980 | 1.00 |
| Eastern Associated | Lightfoot 1 & 2 | Boone | U | M | 0.115 | 1976 | 1981 | 1.40 |
| Coal Corp. | Millibet | Boone | U | M | - | 1979 | 1981 | 0.27 |
| Energy Development Corp. | Energy 3 | Boone | U | M | 0.027 | 1976 | 1977 | 0.15 |
| | Energy 4 | Boone | U | M | 0.047 | 1976 | 1977 | 0.15 |
| | Friederike | Boone | U | M | - | 1977 | 1978 | 0.15 |

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

Table 7 (contd.)

| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (Million tons) | Year of Expected start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation or in 1985 (Million tons - includes 1976 production if any) |
|----------------------------|-----------------------|----------------------|------|-----|---|---------------------------------|---|---|
| ARIZONA | | | | | | | | |
| Pembury Coal Co. | Keynote 1 | Mesa | S | St | 4,667 | 1/ | 1977 | 8.00 |
| Total Arizona | | | | | 4,667 | | | 8.00 |
| ARKANSAS | | | | | | | | |
| a Superlone Mining Co. | SP-7 | Sabanlea | U | M | - | 1977 | 1977 | 0.20 |
| Total Arkansas 2/ | | | | | - | | | 0.20 |
| CALIFORNIA | | | | | | | | |
| a Ausimite Coal Co. | Thompson Creek | Pitkin | U | M | - | 1978 | 1980 | 1.00 |
| a Cameron Engineering | Station Creek | Elbert | S | St | - | 1979 | 1980 | 1.00 |
| a CYSI Steel | Marshall | Los Angeles | U | M | - | 1977 | 1979 | 0.50 |
| a " " | Allan | Los Angeles | U | M | 0.500 | 1/ | 1984 | 1.90 |
| a Colony Coal Co. | Craig | Moffet | S | St | - | 1979 | 1979 | 3.00 |
| a Empire Energy | Winn Hills 5, 6, 7, 8 | Moffet | U | St | 0.342 | 1/ | 1983 | 2.40 |
| a Energy Metals Corp. | Energy No. 1 & 2 | Moffet | U | St | 2.488 | 1/ | 1978 | 3.50 |
| a " " | ENC 1 | Moffet | U | St | - | 1982 | 1985 | 1.50 |
| a " " | ENC 4 | Moffet | U | St | - | 1979 | 1983 | 1.50 |
| a " " | ENC 2 | Moffet | U | St | - | 1982 | 1985 | 1.50 |
| a General Exploration | Roadside | Moffet | U | St | - | 1977 | 1979 | 0.50 |
| a " " | Casco | Moffet | U | St | - | 1977 | 1979 | 1.00 |
| a Midcontinent Coal & Coke | Coal Basin | Moffet | U | St | 0.109 | 1/ | 1983 | 0.20 |
| a " " | Star Creek 4 | Pitkin | U | M | 0.115 | 1/ | 1981 | 0.40 |
| a " " | Butch Creek 1 | Pitkin | U | M | 0.134 | 1/ | 1981 | 0.40 |
| Utah International | Trapper | Moffet | S | St | - | 1977 | 1979 | 2.20 |
| Westward Coal Co. | Orchard Valley | Delco | U | St | - | 1977 | 1981 | 1.50 |
| Western Slope Carbon | Black's Nest | Gunnison | U | M | 0.180 | 1/ | 1979 | 0.60 |
| Total Colorado 2/ | | | | | 3.908 | | | 24.30 |
| IDAHO | | | | | | | | |
| Big Ben Coal Co. | Big Ben 1 | Lucas | U | St | 0.100 | 1/ | 1977 | 0.20 |
| Total Idaho | | | | | 0.100 | | | 0.20 |

Table 7 (contd.)

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

| NEW COAL MINES AND EXTENSIONS OF EXISTING MINES 1977-1985 | | | | | | | | |
|---|--------------------|----------------------|------|-----|---|---------------------------------|---|---|
| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (Million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation or in 1985 (Million tons - Includes 1976 production if any) |
| KANSAS | | | | | | | | |
| Bill's Coal Co., Inc. | Pulmon | Bourbon | S | St | - | 1977 | 1877 | 0.25 |
| Total Kansas | | | | | - | | | 0.25 |
| MONTANA | | | | | | | | |
| Amex, Inc. | East Sary Creek 4/ | Crow Reservation | S | St | - | 1981 | 1984 | 5.00 |
| Dacker Coal Co. | East | Big Horn | S | St | - | 1980 | 1983 | 8.00 |
| " | North | Big Horn | S | St | - | 1978 | 1983 | 4.00 |
| " | West | Big Horn | S | St | 10,207 | 1/ | 1984 | 11.50 |
| Uryer Brothers | Circle West | McCone | S | St | - | 1984 | 1985 | 5.00 |
| MUNGO (McC. M.L.) | Unnamed | Household | S | St | - | 1980 | 1983 | 1.20 |
| Shall Oil Co. | Spring Creek | Big Horn | S | St | - | 1980 | 1982 | 10.00 |
| " | Young's Creek 2/ | Crow Reservation | S | St | - | 1982 | Indef. | 8.00 |
| Western Energy | Pearl | Big Horn | S | St | 8,263 | 1982 | 1983 | 2.00 |
| Westvalley Resources | Colstrip 1-4 | Beaumont | S | St | - | 1/ | 1985 | 20.00 |
| " | Assaloka 3/ | Big Horn | S | St | 4,084 | 1/ | 1983 | 14.00 |
| Total Montana 3/ | | | | | 23,556 | | | 88.70 |
| NEW MEXICO | | | | | | | | |
| Carbon Coal Co. | Gameroo 1 | McKinley | S | St | - | 1979 | 1878 | 1.20 |
| Enterprise Steel | York Canyon 1 | Colfax | U | M | 0.800 | 1/ | 1977 | 0.80 |
| " | W. York | Colfax | S | M | - | 1978 | 1878 | 0.50 |
| Pittsburg & Midway | McKinley | McKinley | S | St | 0.842 | 1/ | 1980 | 5.00 |
| Utah International | Huachu | San Juan | S | St | 6.465 | 1/ | 1983 | 11.10 |
| Western Coal Co. | Sao Juan | Sao Juan | S | St | 1.224 | 1/ | 1978 | 2.40 |
| Total New Mexico 3/ | | | | | 9,331 | | | 21.00 |
| NORTH DAKOTA 10/ | | | | | | | | |
| Beckel-Norman | Center | Oliver | S | St | 1,664 | 1/ | 1878 | 4.30 |
| " | Neuman | Burke | S | St | 0,406 | 1/ | 1978 | 0.45 |

NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1983

Table 7 (contd.)

| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (million tons) | Year of Expected Start-up | Year of Expected Full Production or 1983 | Expected Annual Production at Full Operation or to 1983 (million tons - includes 1976 production if any) |
|-----------------------------------|--------------------|----------------------|------|-----|---|---------------------------------|---|---|
| North Dakota 10/ (cont'd.) | | | | | | | | |
| Consolidation Coal | Glenharald | Mercer | S | St | 3,707 | 1/ | 1977 | 3.40 |
| " | Busby Strip | Stark | S | St | 0,130 | 1/ | 1984 | 0.60 |
| " | Gascoyne | Stark | S | St | 3,482 | 1/ | 1978 | 3.10 |
| " | Knife River Coal | Mercer | S | St | 1,323 | 1/ | 1983 | 2.50 |
| " | " | " | S | St | " | 1981 | 1981 | 1.50 |
| " | Spracher | Grant | S | St | " | 1983 | 1983 | 3.30 |
| " | McClennan | McClennan | S | St | " | 1983 | 1983 | 3.30 |
| " | No. 2 Mine | McClennan | S | St | " | 1983 | 1983 | 3.30 |
| " | Falkirk | McClennan | S | St | " | 1977 | 1980 | 6.00 |
| " | Coteau | Mercer | S | St | " | 1981 | 1983 | 6.00 |
| Total North Dakota 3/ | | | | | 9,714 | | | 34.85 |
| OKLAHOMA | | | | | | | | |
| ARMCO Steel | Unnamed | Leflore | U | M | " | 1979 | 1980 | 0.30 |
| " | Porter | Wagoner | S | St | NA | 1/ | 1978 | 0.43 |
| " | Roachill | Waskell | S | St | " | " | 1979 | 0.20 |
| " | Kerr-McGee | Waskell | U | M | " | 1980 | 1985 | 1.00 |
| Total Oklahoma | | | | | NA | | | 2.13 |
| TEXAS | | | | | | | | |
| " | Camp Bullit | Bastrop | S | St | " | 1984 | 1983 | 0.30 |
| " | S. Tex. San Miguel | Atascosa | S | St | " | 1979 | 1980 | 3.00 |
| " | Bryan Project | Atascosa | S | St | " | 1980 | 1981 | 4.00 |
| " | Forest Grove | Brewster | S | St | " | 1981 | 1982 | 3.00 |
| " | Rockdale | Milam | S | St | 2,000 | 1/ | 1980 | 5.60 |
| " | Martin Lake | Penole | S | St | " | 1977 | 1983 | 12.00 |
| " | Tule Lake | Roberts | S | St | " | 1984 | 1983 | 6.00 |
| " | Monticello | Titus | S | St | 6,400 | 1976 | 1978 | 10.00 |
| Total Texas 3/ | | | | | 8,400 | | | 44.10 |

Table 7 (contd.) NEW COAL MINES AND EXPANSIONS OF EXISTING MINES 1977-1985

| Company | Mine | Location (County) | Type | Use | 1976 Production (if in operation) (Million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation or in 1985 (Million tons - includes 1976 production if any) |
|--|----------------|----------------------|------|-----|---|---------------------------------|---|---|
| UTAH | | | | | | | | |
| American Elec. Power | Stratch 3 & 5 | Carbon | U | St | 0.931 | 1/ | 1980 | 3.00 |
| Atlas Minerals | Factory Butte | Wayne | S | St | - | 1978 | 1980 | 0.50 |
| Energy Services Group | Asard Lakes | Sevier | U | St | - | 1979 | 1980 | 1.50 |
| " | Rock Canyon | Sevier | U | St | - | 1979 | 1980 | 1.50 |
| " | " | Sevier | U | St | - | 1977 | 1978 | 0.50 |
| " | " | Sevier | U | St | - | 1977 | 1980 | 0.70 |
| General Exploration | Knight Mine | Carbon | U | St | 0.412 | 1976 | 1980 | 0.70 |
| " | Soldier Canyon | Carbon | U | St | 0.200 | 1/ | 1978 | 0.70 |
| Southern Utah Fuel | Hine #1 | Sevier | U | St | 1.043 | 1/ | 1980 | 2.10 |
| U.S. Fuel Co. | King | Carbon | U | St | 0.815 | 1/ | 1979 | 1.50 |
| " | Mohrland | Carbon | U | St | - | 1978 | 1984 | 2.50 |
| " | " | Carbon | U | St | - | 1981 | 1985 | 5.00 |
| Utah International | Alton Field | Wayne | S | St | - | 1981 | 1985 | 5.00 |
| Utah Power & Light | Deer Creek | Wayne | U | St | 0.858 | 1/ | 1978 | 2.40 |
| " | Walberg | Wayne | U | St | 0.206 | 1976 | 1980 | 2.20 |
| " | " | Wayne | U | St | - | 1977 | 1978 | 0.80 |
| Valley Camp of Utah | Belium 1 | Carbon | U | St | - | 1980 | 1981 | 0.80 |
| " | Belium 2 | Carbon | U | St | - | 1981 | 1985 | 1.30 |
| " | O'Connor 1 | Carbon | U | St | - | 1981 | 1985 | 1.30 |
| " | " | Carbon | U | St | - | 1978 | 1980 | 0.50 |
| Western American Eng. | Thompson | Wayne | U | St | - | 1978 | 1980 | 0.50 |
| Total Utah 3/ | | | | | 4.265 | | | 27.50 |
| WASHINGTON | | | | | | | | |
| Consolid Energy Co. | Hamilton | Hamilton | U | St | NA | 1976 | 1979 | 1.00 |
| Parrar & Young Co. | Roeline 1 | WA | S | St | - | 1977 | 1980 | 1.00 |
| Washington Irrigation and Development | Centralia | Lewis | S | St | 4.023 | 1/ | 1980 | 5.00 |
| Total Washington 3/ | | | | | 4.023 | | | 7.00 |
| WYOMING 11/ | | | | | | | | |
| AMEX, Inc. | Selle Ayre | Campbell | S | St | 7.356 | 1/ | 1981 | 20.00 |
| " | Eagle Butte | Campbell | S | St | - | 1978 | 1985 | 16.30 |

NEW COAL MINES AND EXTENSIONS OF EXISTING MINES 1977-1985

Table 7 (contd.)

| Company | Mine | Location (Country) | Type | Use | 1976 Production (if in operation) (million tons) | Year of Expected Start-up | Year of Expected Full Production of 1985 | Expected Annual Production at Full Operation or to 1985 (million tons - includes 1976 production if any) |
|---------------------------|------------------------|-----------------------|------|-----|---|---------------------------------|---|---|
| Byzling II/ (cont'd.) | | | | | | | | |
| * Arch Minerals | Medicine Bow | Carbon | S | SC | 2.774 | 1/ | 1978 | 3.00 |
| " | Smimes 1 & 2 | Carbon | S | SC | 5.322 | Y/ | 1977 | 6.00 |
| * Arch Minerals, Rocky | China Butte | Carbon | S | SC | - | 1979 | 1981 | 4.00 |
| * ARCO | | | | | | | | |
| " | Black Thunder | Campbell | S | SC | - | 1978 | 1985 | 20.00 |
| " | Coal Creek | Campbell | S | SC | - | 1982 | 1985 | 8.00 |
| " | Ash Creek | Shiridan | S | SC | - | 1977 | 1979 | 0.50 |
| " | Jim Bridger | Sweetwater | S | SC | 3.429 | 1/ | 1980 | 7.50 |
| " | Calavillo | Campbell | S | SC | - | 1979 | 1983 | 5.00 |
| " | Barbide | Campbell | S | SC | - | 1977 | 1982 | 12.00 |
| " | Carbon Basin | Carbon | S | SC | - | 1978 | 1985 | 5.00 |
| * Commonwealth Edison | Franchora | Campbell | S | SC | - | 1979 | 1981 | 5.00 |
| * Consolidation Coal Co. | Dandee | Lincelo | S | SC | - | 1979 | 1979 | 0.20 |
| * Crest Coal | Thunderbird 12/ | Campbell | S | SC | - | 1981 | 1982 | 5.00 |
| * Ki Run Energy Resources | Vanguard 1 & 2 | Carbon | S | SC | NA | 1/ | 1980 | 1.60 |
| " | Red Elm | Carbon | S | SC | - | 1981 | 1981 | 2.00 |
| " | Skull Point | Lincelo | S | SC | 0.100 | 1976 | 1979 | 1.20 |
| " | Twin Creek | Lincelo | S | SC | - | 1980 | 1983 | 3.00 |
| " | North Block | Lincelo | S | SC | - | 1981 | 1983 | 1.50 |
| " | East Gilllette Mine 16 | Campbell | S | SC | - | 1979 | 1981 | 4.00 |
| " | Jacobs Ranch | Campbell | S | SC | - | 1978 | 1985 | 14.50 |
| " | Converse | Converse | S | SC | - | 1983 | 1985 | 10.00 |
| " | Antelope | Campbell & Converse | S | SC | - | 1981 | 1982 | 5.00 |
| " | Gilllette | Campbell | S | SC | - | 1983 | 1984 | 5.00 |
| " | Rochelle | Campbell | S | SC | - | 1981 | 1985 | 11.00 |
| " | Wilkey | Shiridan | S | SC | - | 1980 | 1980 | 1.00 |
| " | Wildcat Creek | Campbell | S | SC | - | 1980 | 1985 | 8.00 |
| * Peter Kiewit | Hannah | Carbon | U | SC | - | 1979 | 1983 | 2.50 |
| * Rocky Mt. Energy | Stansbury | Sweetwater | U | SC | 0.100 | 1976 | 1981 | 1.00 |
| " | Black Butte | Sweetwater | U | SC | - | 1979 | 1984 | 7.00 |
| " | South Haysack | Utica | S | SC | - | 1979 | 1980 | 3.00 |

Table 7 (contd.) NEW COAL MINES AND EXTENSIONS OF EXISTING MINES 1977-1985

| Company | Mine | Location (Country) | Type | Use | 1976 Production (if in operation) (Million tons) | Year of Expected Start-up | Year of Expected Full Production or 1985 | Expected Annual Production at Full Operation or in 1985 (Million tons - includes 1976 production if any) |
|--------------------|--------------|--------------------|------|-----|--|---------------------------|--|--|
| Wyoming (cont'd.) | | | | | | | | |
| * Rocky Mt. Energy | Atletkie Rim | Carbon | S | St | - | 1979 | 1981 | 2.50 |
| Shell Oil Co. | Buckelion | Campbell | S | St | - | 1980 | 1981 | 4.00 |
| Sun Oil Co. | Cordern | Campbell | S | St | 0.010 | 1976 | 1981 | 12.00 13/ |
| * Sundaco & ROR | Long Canyon | Sweetwater | S | St | - | 1981 | 1984 | 2.00 |
| Western Energy Co. | Cress Creek | Hot Springs | S | St | - | 1980 | 1980 | 0.70 |
| Wyodak Resources | Wyodak | Campbell | S | St | 0.787 * | 1/ | 1982 | 4.00 |
| Total Wyoming 2/ | | | | | 15.878 | | | 224.00 |

* Information on this mine has been reported by McGraw-Hill, by FEA or the Bureau of Mines. Although MCA attempted to verify this data, the company to which these plans are attributed did not respond to our questionnaire.

** 1975 production at indicated mine.

- 1/ In operation 1975 or before. Expected annual production for these mines includes production already on line.
- 2/ These projects have been delayed; dates of start-up are uncertain.
- 3/ State totals include plans which have not been verified by MCA. (State listing of these tonnages follows footnotes.)
- 4/ Mine reopening.
- 5/ Joint venture.
- 6/ Crow Tribe must still accept final proposal.
- 7/ Schedule may be abandoned unless Crow Indians can negotiate a plan for royalties and reclamation by 1982. Department of Interior Secretary must lift ban on lease sales of Indian lands.
- 8/ Northern Claymen Indians have court suit pending to change air quality classification from Class II to Class I.
- 9/ These tracts are on Crow Ceded lands.
- 10/ Listings for North Dakota do not include any projects for gasification which we found would not be a sector by 1985.
- 11/ Several projects to Wyoming are joint ventures. These are not noted in this listing.
- 12/ Company reports that project may be delayed due to Interior's failure to issue coal leases.
- 13/ Pending acceptance of permits, company reports potential to reach 24 million tons annual production by 1985.

Source: MCA survey of companies listed. Those companies designated * did not respond to our survey. The information included for these companies was obtained from reports published by McGraw-Hill, Department of Energy (Federal Energy Administration) or the Bureau of Mines. The 1976 production data was obtained from the 1977 Nonferrous Metal Industry Manual, McGraw-Hill, Inc., New York, N. Y.

Table 7 (contd.)

NOTE: The following table shows the percentage of total expected annual production at full operation from new mines and expansions of existing mines which have been verified by MCA.

| State | Total Expected Annual Production of Mines Listed 1/ (Million tons) | % Verified by MCA Survey |
|---------------------|--|-----------------------------|
| Alabama | 23.75 | 87.42 |
| Illinois | 36.95 | 100.0 |
| Indiana | 17.80 | 100.0 |
| Kentucky, East | 26.45 | 80.5 |
| Kentucky, West | 19.50 | 100.0 |
| Total Kentucky | 45.95 | 88.8 |
| Maryland | 2.00 | 100.0 |
| Ohio | 16.80 | 100.0 |
| Pennsylvania | 28.05 | 78.6 |
| Tennessee | 2.10 | 0.0 |
| Virginia | 5.95 | 100.0 |
| West Virginia | 54.64 | 83.0 |
| Total East | 231.99 | 89.02 |
| Arizona | 8.00 | 100.02 |
| Arkansas | 0.20 | 0.0 |
| Colorado | 24.30 | 72.8 |
| Iowa | 0.20 | 100.0 |
| Kansas | 0.25 | 100.0 |
| Montana | 88.70 | 93.0 |
| New Mexico | 21.00 | 88.1 |
| North Dakota | 34.85 | 79.3 |
| Oklahoma | 2.15 | 100.0 |
| Texas | 44.10 | 89.8 |
| Utah | 27.50 | 93.8 |
| Washington | 7.00 | 71.4 |
| Wyoming | 226.00 | 70.2 |
| Total West | 487.25 | 78.92 |
| Total United States | 714.24 | 82.22 |

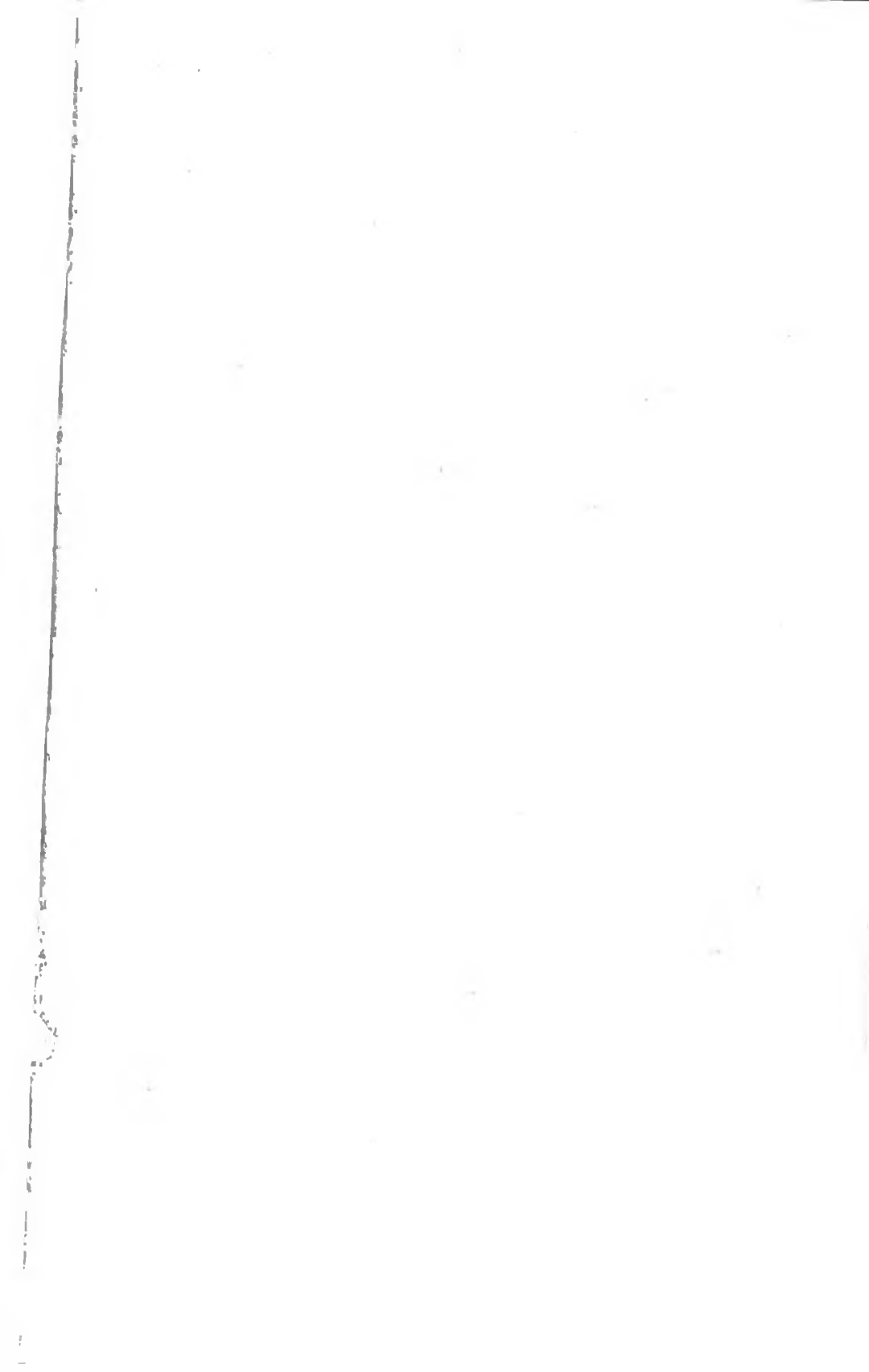
1/ Includes production in 1976, if any.

[Whereupon, at 6:30 p.m., the subcommittee adjourned.]

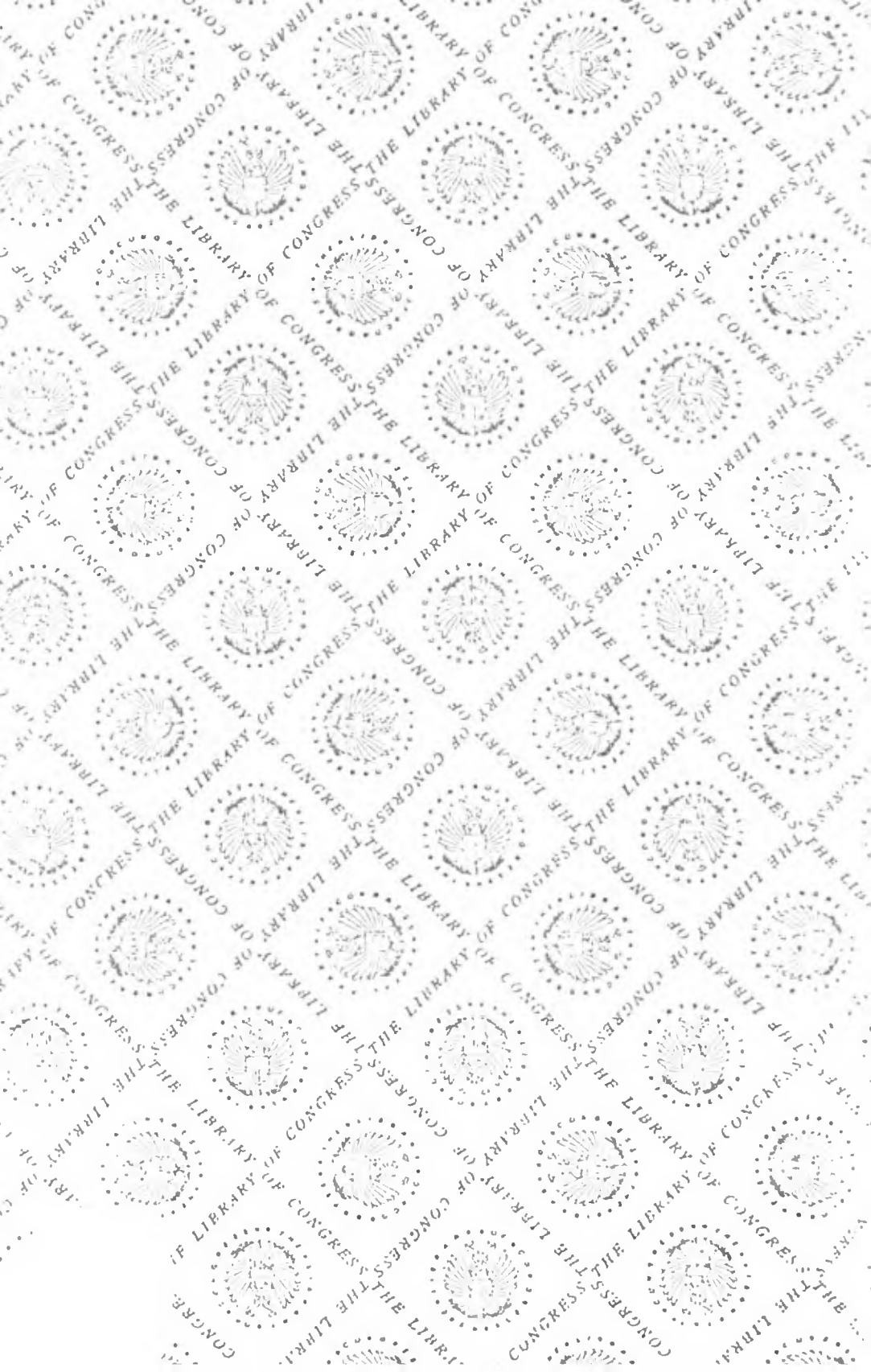


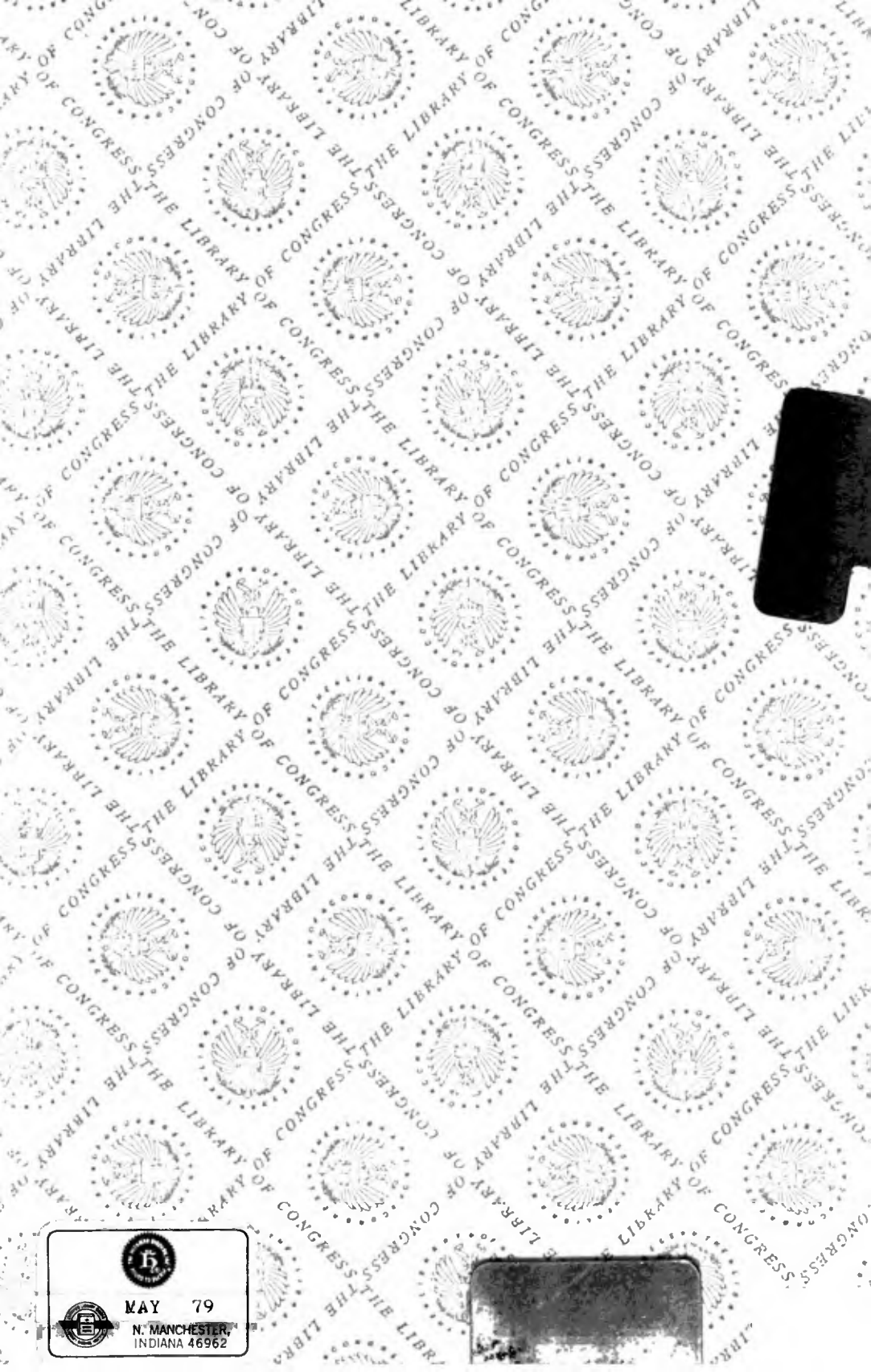






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